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THE SENATE OF CANADA

Proceedings of the

STANDING COMMITTEE ON

CANADIAN TRADE RELATIONS

in respect to the inquiry into what, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty.

No. 7

WEDNESDAY, MAY 6, 1953.

The Honourable A. N. McLEAN, Chairman

WITNESSES:

Mr. V. C. Wansbrough, Managing Director, Canadian Metal Mining Association.
Mr. G. C. Bateman, former wartime Metals Controller, Department of Munitions and Supply.
Mr. R. T. Birks, Director, Canadian Metal Mining Assocation.
Mr. Thomas Oakley, Past President, Canadian Importers and Traders Association.
Mr. M. E. Corlett, legal counsel, Canadian Importers and Traders Association.

APPENDIX C
Sales of Canadian Metals and Minerals.

APPENDIX D
International Trade and its Influence on Political and Economic Development.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1953

CANADIAN TRADE RELATIONS

The Honourable A. N. McLean, *Chairman*

The Honourable Senators:

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Vaillancourt—(30)

*Ex officio member

35 Members—(Quorum 7)

ORDER OF REFERENCE

Extract from the Minutes of Proceedings of the Senate, Thursday, February 26, 1953:

"That the Standing Committee on Canadian Trade Relations be empowered to enquire into and report on—

1. What, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty whereby the signatories to that document agreed that—"They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them".

2. That notwithstanding the generality of the foregoing, the Committee be instructed and empowered to consider and report upon how, in their opinion,

(*a*) any project for developing economic collaboration, specifically between the countries who are signatories to the North Atlantic Treaty, can be co-ordinated with the trade policies of other countries of the free world;

(*b*) any project for developing economic collaboration between the countries which are signatories of the North Atlantic Treaty, might have the same degree of permanence that is contemplated in the twenty year Military obligation under Article 5 of the Treaty whereby "The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all".

3. That the Committee be empowered to extend an invitation to those wishing to be heard, including representatives of agriculture, industry, labour, trade, finance and consumers, to present their views, and that the Committee also be empowered to hear representations from business interests or individuals from any of the NATO countries who might wish to be heard.

4. That the Committee be empowered to send for persons, papers, and records, and to secure such services as may be necessary for the purpose of the enquiry.

L. C. MOYER,
Clerk of the Senate".

74514—1½

MINUTES OF PROCEEDINGS

WEDNESDAY, May 6, 1953.

Pursuant to adjournment and notice the Standing Committee on Canadian Trade Relations met this day at 10.30 a.m.

Present: The Honourable Senators McLean, Chairman, Burchill, Campbell, Crerar, Euler, Gouin, Haig, Kinley, MacLennan, McDonald and Turgeon.—11.

Consideration of the order of reference of February 26, 1953, was resumed.

The following representatives from the Canadian Metal Mining Association were heard:

Mr. V. C. Wansbrough, Managing Director.

Mr. G. C. Bateman, former Wartime Metals Controller, Dept. of Munitions and Supply.

Mr. R. T. Birks, Director.

A table filed by Mr. Wansbrough, "Sales of Canadian Metals and Minerals", was ordered to be printed as Appendix C to these proceedings.

The following representatives from the Canadian Importers and Traders Association were heard:

Mr. Thomas Oakley, Past President.

Mr. M. E. Corlett, legal counsel.

A booklet filed by Mr. Oakley, "International Trade and its Influence on Political and Economic Development", was ordered to be printed as Appendix D to these proceedings.

Further consideration of the order of reference was postponed.

At 1.00 p.m. the Committee adjourned until Thursday, May 7, 1953, at 10.30 a.m.

Attest.

JOHN A. HINDS,
Assistant Chief Clerk of Committees.

MINUTES OF EVIDENCE

THE SENATE

OTTAWA, WEDNESDAY, May 6th, 1953.

The Standing Committee on Canadian Trade Relations which was empowered to inquire into and report upon the development of trade between countries signatory to the North Atlantic Treaty, and with other countries of the free world, met this day at 10.30.

Hon. Mr. McLEAN in the Chair.

The CHAIRMAN: Honourable senators, this is the seventh meeting of the Canadian Trade Relationship to be held since the introduction of the resolution in the Senate on February 12, and which was referred to this honourable committee on February 26. I am sure everyone here is familiar with the resolution, and there is no need to read it.

We are honoured this morning to have before us two very important public bodies, namely the Canadian Metal Mining Association and the Canadian Importers and Traders Association Incorporated. The Canadian Metal Mining Association will lead off with its presentation. The Association is represented here by Mr. R. T. Birks, President of East Malartic Mines and Director of the Canadian Metal Mining Association; Mr. G. C. Bateman, former Wartime Metals Controller of the Department of Munitions and Supply; Mr. R. G. Driver, Assistant Manager of Sales, Noranda Mines Limited; Mr. V. C. Wansbrough, Managing Director of Canadian Metal Mining Association; and Mr. H. H. Wright, Secretary of the Canadian Metal Mining Association.

I understand that Mr. V. C. Wansbrough, Managing Director of the Association, will present the brief. Any other members of the delegation who wish to speak are quite free to do so.

Mr. V. C. WANSBROUGH: Thank you Mr. Chairman. I would like your direction as to how you wish me to deal with the brief. If you prefer, I can summarize those parts which we think lend themselves to summary, and dwell at length on the particular points which we would like to emphasize before the committee.

The CHAIRMAN: What is the feeling of the members of the committee?

Hon. Mr. HAIG: Let the witness deal with it in what he considers the best way to present his case.

Mr. WANSBROUGH: Thank you very much.

Mr. Chairman and honourable members, in the brief you have before you we begin by expressing our warm appreciation for the invitation you have extended to the Canadian Metal Mining Association to make this presentation, fully realizing that the subject matter which you are investigating is of most vital importance to the Canadian welfare as well as to the health and growth of Canadian export industry.

We are particularly grateful for the opportunity of making a presentation before you on behalf of the membership of the association, which includes gold producers and producers of other precious metals, non-ferrous metals, iron and a broad range of industrial minerals.

On page 2 of the brief we set forth the state of the mining industry in Canada in the field of multilateral and external trade. We point out that in the year 1952, the dollar value of the products of Canadian metals and minerals,

excluding gold which comes in for special consideration, is some $750 million. Below is a list of the major products which go to make up the total of their dollar volume for 1952, including nickel, copper, zinc, lead and asbestos.

We then give the export percentage of each of those metals which you will note as follows: nickel 98 per cent, copper 53 per cent, zinc 87 per cent, lead 72 per cent and asbestos 99 per cent. We say that where, as with copper in particular, a substantial quantity of metal of Canadian origin is fabricated in this country, the export market is also of importance.

In the latest report of the Dominion Bureau of Statistics, analysing Canada's export trade by industries, the non-ferrous metal industry ranks third in importance. Non-ferrous metal exports are shown as amounting to $707 million in 1952, an increase of $137 million over 1951.

Non-ferrous Metal Exports by Value, 1952

	1952	Increase Over '51
	$ millions	
Aluminum and products	162	38
Nickel	151	14
Copper and products	119	32
Zinc and products	97	12
Lead and products	50	4
Precious metals (except gold)	47	—1
Brass and products	23	17

Traditionally Canada's two most important markets have been the United Kingdom and the United States. Figures given in the Appendix illustrate the marked swing which has taken place since the war from the United Kingdom to the United States market.

It may be added that with the developments now taking place in Canadian mining, Canada's mineral production may be expected to increase in important respects, and for many years to come the industry will have to look to external markets for the sale of a high proportion of its products.

In these circumstances it is clearly of vital importance to Canada's third largest export industry that stable and unimpeded conditions of multilateral trade be achieved and maintained.

I should like to add the comment that when we are speaking about base metals we are not referring merely to international interchange of commodities, but of very special commodities which are of vital importance to Canada's defence program for the western world.

In the following paragraph of the brief we suggest that attention be directed this morning to two principal aspects of this question which your committee, Mr. Chairman, is now considering: First, any steps which can be taken to remove direct obstacles which now impede the flow of trade across national boundaries, and secondly stable currency relationships, currency convertibility and more adequate means of international payments.

With regard to restrictions on trade we point out that important progress has been made since the war in the reduction of barriers of trade, but we believe that further progress is to be made in this regard. Further, we say it is fortunately possible to discuss the subject with some candor and without incurring the risk of appearing critical of a friendly neighbour, because the United States tariff policy has been and now is the subject of thorough examination by the present administration of the United States and has received the thoughtful scrutiny of many American public and private commissions and business organizations.

We have in mind two particular reports which have brought out strong recommendations in favour of a liberalization of American tariff and trading policies. The first is entitled "Britain's Economic Problem and Its Meaning

for America", and has been made by the Committee for Economic Development, a private group of leading American industrialists, bankers and economists.

The second is an official report to the President by the Public Advisory Board for Mutual Security, entitled "A Trade and Tariff Policy in the National Interest", and is often referred to by the name of the Board's Chairman as the Bell Report. Your members, Mr. Chairman, will be familiar with the pronouncements made by the Detroit Chamber of Commerce and many other bodies on the American trade policy.

On the top of page 4 of the brief we offer a short digest of certain matters contained in these reports. They concur and recommend the following:

1. A selective reduction in the American tariff by extending the reciprocal Trade Agreements Act (due to expire this June) without the obnoxious "peril point" clauses;
2. A simplification of American customs procedure to enable the foreign exporter to determine just what rate of tariff his product is going to have to pay;
3. Repeal of the "Buy American" Act.

When the trade and tariff policies of the United States are receiving such attention and scrutiny from American leaders, it is not perhaps out of place to point out certain changes which would be regarded as beneficial from the point of view of Canadian producers of metals. There is a strong mutuality of interest. It is acknowledged that metals and minerals of Canadian origin, many of them of top strategic importance, are urgently needed by the United States; and that this demand will increase rather than diminish is evident from the findings of the Paley Report.

In these circumstances it will suffice if we draw attention to certain instances where United States tariff policy does not seem adjusted to the mutual requirements and the changing circumstances of the two countries.

The United States imposes a tariff on nickel of 1¼ cents per pound, though it is almost wholly dependent on Canadian sources for its supply. There is no domestic industry to protect, and the tariff therefore serves no purpose but that of raising revenue. It would appear quite unwarranted.

The duty currently imposed on zinc concentrates is similarly regarded by Canadian producers as unjustified. It results in a substantial loss of revenue to Canadian mines, increases the cost to the U.S. consumer, and could deprive U.S. smelters of the concentrates needed to operate their plants at maximum efficiency.

Duties on zinc and lead were reimposed in 1952, when the domestic price of these metals in the United States dropped below an established level. The situation has become very seriously aggravated by bills now before Congress, which are being most actively promoted and which if passed into law would have most injurious effects on Canadian and foreign producers. The purpose of the legislation is to impose, in addition to the currently applicable duties, "sliding scale stabilization duties" on zinc and lead (concentrates and metal), which will apply whenever the U.S. domestic price falls below an established base price. The effect would be to keep prices artificially high and raise the U.S. tariff to a point which would be virtually an embargo on imports. The injurious effects of such legislation on Canadian producers cannot be too strongly emphasized.

Another instance of difficulty arising from U.S. tariff regulations is the one and one-quarter cents per pound duty imposed on copper rods. This is only one of the various primary shapes in which copper is sold, and there seems no reason why this particular form should be singled out for discriminatory treatment.

I would like to add also—what is not in the text—a reference to the United States import duty on electrolytic copper, which is a duty of 2 cents a pound, currently suspended and to remain in suspension until June of 1954 unless the domestic United States price on copper drops below a particular figure, which happens to be 24½ cents a pound.

Instances can be quoted where the rates of duty are practically prohibitive. Baryte, for example, is a mineral which the United States needs to import. The value of the ore at the mine ranges from $7 to $10 a ton. The United States tariff on the crude ore is $3 per ton, or $6.50 per ton if it is in ground form.

These specific instances are selected to illustrate the general point that much remains to be done by way of reducing the barriers to trade which already exist and of avoiding the erection of further barriers.

In general it would be of great advantage to producers supplying the United States market, especially with primary materials which that country is going to need to an increasing degree, if its tariff rates were established on a longer-term basis and were less subject to sudden change. Temporary suspensions of duties for brief periods, followed by their sudden reimposition and by the imposition of special import taxes can produce nothing but disturbing and unsettling effects.

When we are dealing with base metals we are dealing with materials that are of vital importance for the national defence and international defence, and we are dealing with a commodity the protection of which cannot be quickly turned off and turned on as with a tap. If through tariff policies overseas markets should diminish, and thereby cut back the possibilities of our production, we have no assurance whatever that we shall be adequately supplied with these materials should a national emergency make it necessary.

The Canadian Tariff: As regards the Canadian tariff, we have no special comments to make at this time, except to stress that vigilance is required on the part of the Canadian Government against establishing "blanket" rulings, such as some which have been recently proposed, and which would have the effect of imposing higher rates of duty on items of machinery not manufactured in this country.

Hon. Mr. EULER: Would you elaborate on that? What form has that taken?

Mr. WANSBROUGH: One instance recently was referring to power shovels and cranes, the smaller sizes of which are manufactured in this country but the larger sizes, which are more used in the mining industry, are not. At the present time the larger sizes can be brought in from the United States either free of duty, if they are to be used directly in mining operations, or at the rate of 7½ per cent if not to be used directly for that purpose. In order to give the Canadian manufacturers of power shovels protection, certain sizes such as are made in this country have a protective tariff of 22½ per cent. An attempt was made recently to get a ruling that power shovels are a single class of machinery: if any are made in this country, all should be regarded as made in this country. The effect would have been to increase the range of the 22½ per cent duty to the greater bulk of power shovels which are imported from the United States. That is the kind of thing we have in mind when we speak of "blanket" rulings.

Freight Rates—Reference must be made to the dangers implicit for Canadian producers in the steadily mounting cost of freight rates. Mr. Donald Gordon recently pointed out that increased rates could cause loss of business because they rendered Canadian products non-competitive in world markets. This is particularly true of certain bulk mineral products such as pyrite concentrates where the value f.o.b. mine is substantially less than the freight involved to consuming centres.

Pyrite as a substitute for sulphur holds great possibilities for Canadian mining, but it will be very difficult to develop without some flexibility of policy as regards freight rates. It is believed that lower rates would enable increased tonnage to be shipped and would be beneficial both to the producer and the railway.

Increased freight rates on such products as zinc concentrates and copper concentrates—heavy bulk products—also have a very adverse effect upon the production of these metals.

I would like to make one additional comment there. The difficulty is multiplied as ore bodies are mined in remoter parts, adding therefore to the haul.

This is a problem that certainly cannot be overlooked if Canadian producers are to maintain a competitive position on world markets.

General Government Policy in a Period of Transition: During the period of emergency through which we have been passing for the last two and a half years, governments engaged in stockpiling programmes have been large purchasers of metals and minerals, many of which have been subject to international allocation.

From this period we are now emerging and are returning to more normal methods and channels of trade.

The success of the transition will be greatly facilitated if the policies of governments are kept as stable as possible, and if they avoid, as far as is in their power, sudden changes in any respects which affect the flow of trade or unduly influence the level and trend of prices.

Fundamental Conditions of Multilateral Trade—Apart from particular obstacles which impede the flow of trade between nations such as arise from tariff policies and other forms of restrictive practice, there are certain fundamental conditions which have to be achieved and maintained to assure stability of international commerce.

In particular currencies must remain reasonably stable, convertibility of currencies must be achieved and assured, and national treasuries must have adequate reserves to settle international trade balances.

During the post-war years, trade between the North American countries and the countries of Western Europe has been largely sustained by means of dollar loans and aid programmes.

Between the years 1948 and 1952, for example, metals and minerals of Canadian origin to the value of $604 million were made available to European countries under the European Recovery Program. These were paid for by U.S. dollars, authorized through the Economic Co-operation Administration and the Mutual Security Agency.

The crux of the present situation is to devise means of setting multilateral trade on a firmer and more permanent foundation, to enable all countries to pay their own way and turn "Trade not Aid" from a slogan to a reality.

Stable Currency Relationships—The importance of stable currency relationships cannot be over-emphasized for any trading nation. The recognition of this fact led to the establishment of such international bodies as the International Monetary Fund. Whatever the shortcomings of that organization have proved to be, it represents an attempt to achieve and maintain balanced currency relationships and to provide for an orderly method of making such adjustments as become from time to time necessary.

Some freedom and flexibility are certainly desirable; and the Canadian Government has been widely commended by setting a bold example and "freeing" the Canadian dollar. The circumstances in which it did so were favourable. The subsequent climb of the Canadian dollar to a premium position over the United States dollar has testified to the general strength of our

own economic position. One result, however, has been to give a sharp reminder to all Canadian exporters to the United States market that it is they who must pay the price of the premium.

It is also a reminder of the additional hazards which would soon be created in international trade without reasonable stability in currency relationships.

Currency Convertibility—If multilateral trade is to be established on a satisfactory permanent basis, not only must currencies be reasonably stable but they must be freely convertible.

Unless the sterling-dollar gap can be bridged, we must resign ourselves to seeing the western world break up into trading "blocs".

To discuss this intricate and complicated question in all its phases is far beyond the purposes and scope of this submission.

Our purpose is to focus attention on one particular but important aspect of the problem, namely the role of gold in international trade.

It is our view, not that gold can of itself solve this problem, but that no satisfactory solution will be found unless the proper importance is attached to gold and its function and steps are taken to permit it to perform that function adequately.

The Role of Gold in International Trade—Gold is the traditional and the only universally acceptable medium of international exchange, as well as the common measure of value to which national currencies are related.

Because gold has been withdrawn from general circulation among most countries of the western world, its role as an international medium of exchange is commonly forgotten.

In effect, the International Monetary Fund established, with certain important limitations, an international gold exchange standard.*

Trade balances are settled in gold. One of the chief difficulties which multilateral trade is now experiencing is that national treasuries of countries other than the United States have not adequate supplies of gold. And for this the principal reason is that gold has remained priced at the figure at which it was pegged by decree of the President of the United States in 1934, at $35 (U.S.) per fine ounce.

One result has been the decline of the gold mining industry in all parts of the world. The question is of vital concern to Canada as the world's second largest gold producer.

All but a few of the 59 surviving gold producers (compared with 140 in 1941) are being maintained in existence by direct aid from the federal government. It is no exaggeration to assert that Canada is in serious danger of losing completely an industry which in former years accounted for much prosperity and progress and which pinoeered in the opening up and the settlement of the Canadian North where its mineral wealth is found.

Gold mining is a depressed industry everywhere and governments have resorted to various means of assistance.

Limited access under strictly controlled conditions has been granted to the "premium" markets. The restrictions however are such that this has not afforded help to any but a few Canadian producers.

Diversion of Gold from National Treasuries—Yet in spite of all attempts to prevent gold from getting into private hands, only a small percentage of the world's newly mined gold has been finding its way to national treasuries.

* "There is nothing in the plan (i.e. the Bretton Woods Agreements) that in any way prejudices the prestige or usefulness of gold as a means of settling international balances. Gold is still the international exchange medium par excellence." W. T. G. Hackett, Economic Consultant, Bank of Montreal.

According to an analysis given in the Twenty-Second Annual Report of the Bank of International Settlements (June 1952) some 85 per cent of newly mined gold is reaching destinations other than national treasuries. The Bank's report presents the following tabulation:

	millions of U.S. dollars 1951
Gold production (exclusive of U.S.S.R.)	844
Increase in official gold reserves	130
"Disappeared" gold (estimated breakdown: industrial uses: 220 private hoarding: 494	714

Private Ownership of Gold

It would create a far more satisfactory and healthy situation if governments openly acknowledged that there was a demand for private ownership and possession of gold and that citizens had a legitimate right to purchase and hold it. The demand is especially strong in those countries whose citizens have experienced the devaluation of their currencies and therefore desire to possess something of intrinsic and permanent value.

In the meanwhile gold is not being produced in sufficient quantity either to satisfy private demands or to meet the requirements of governments.

The Inadequacy of National Reserves

We would draw attention to a report entitled "Measures for International Economic Stability", prepared for the Department of Economic Affairs of the United Nations by a committee of internationally famous economists, headed by Dr. James W. Angell of Columbia University (November 1951).

While the whole report merits careful study, we draw notice in particular to the contents and arguments of Chapter IV, "International Monetary Reserves".

Having pointed out that international trade cannot be maintained without periodic tightening of fiscal and monetary policies or of trade and exchange restrictions, unless the trading countries have adequate monetary reserves, the report proceeds:

Section 109—"Our examination of existing reserves has convinced us that they are not in general adequate. The total reserves of countries other than the United States are now much smaller in relation to trade than they were before the war. Their total gold and official dollar holdings at mid-1951 were only one-fifth higher than they were in 1937. But their total imports, measured in dollars, have recently been running at an annual rate more than two and one-half times as great as in 1937, largely the result of the rise in prices. Their imports from the United States have been nearly five times as great. Their reserves can thus serve as a buffer only against much smaller proportionate fluctuations in trade...

117. "Methods of Increasing Reserves—One method would be to raise the price of gold uniformly in terms of all currencies, as provided for in the Articles of Agreement of the Fund. Measured in dollars, the official price of gold is no higher than before the war, while prices in international trade have doubled. The effectiveness of a given gold reserve as a buffer against trade fluctuations has been halved. Increases of 25, 50 or 100 per cent in the gold price would raise the reserves of countries other than the United States by some 3,000, 6,000 or 12,000 million dollars.

"118. It may be that a higher gold price would set in motion inflationary forces which would be undesirable save at a time of deficient effective demand.

It is, however, possible by appropriate banking policy to prevent greater reserves from affecting national monetary conditions, at least where the banking system is sufficiently developed. Higher reserves would, moreover, increase confidence in many currencies that have suffered repeated devaluations in the last twenty years. If such confidence reduced the fear that every exchange crisis would necessarily lead to devaluation followed by higher prices, the prevention of inflation would be facilitated.

"119. A higher gold price would, of course, stimulate gold production, and this would in a sense be wasteful. But only a small fraction of one per cent of the world's resources would be involved, and the loss would be offset many times over if higher reserves reduced the danger of international crises, trade restrictions and unemployment."

Having suggested that increasing the price of gold is one method of creating more adequate national monetary reserves, the report refers to political difficulties which might be encountered. What these difficulties are will be familiar to any who have followed many official and unofficial expressions of opinion in the United States.

The thesis that an increase in the price of gold is an indispensable condition of economic and commercial health in the western world is brilliantly argued by the South African economist, Dr. W. J. Busschau, in his book entitled "The Measure of Gold", (1949).

It is our belief that an increase in the price of gold is now coming within the range of practical politics.

It has been reported that several approaches have been made to the United States government on the question during recent years by the British, French and other governments.

We have no knowledge of the proposals which, resulting from the Commonwealth Conference of last year, are now under discussion between the United States Administration and the British and Commonwealth countries.

But we believe that an increase in the price of gold is one proposal which must have serious consideration.

Hon. Mr. EULER: What are the objections of the United States?

Mr. WANSBROUGH: The objections of the United States have pretty steadily increased and are, first, that an increase in the price of gold might well have an inflationary effect upon their domestic economy which they are not prepared to face; secondly, that it would lead to an equitable distribution of benefit—a greater benefit going to those countries which happen to be gold producers or happen to have the larger supplies of gold; thirdly, they are not at all sure whether it might not be putting an adequate weapon in the hands of Russia. Those are the usual stated objections.

The value of all gold stocks held by all countries would thereby be proportionately increased, and the United States would be in a position to give supplementary aid in the form of gold to countries who need it to achieve and maintain currency convertibility.

It is for such reasons as these, as well as for the welfare of an important Canadian industry, that this Association has consistently urged the Government of Canada to associate itself with other governments in pressing for an increase in the price of gold.

The proposal is not advanced as a panacea for the world's ills. But, to quote Dr. Busschau, "it is in the interests of all friendly nations to trade freely together in multilateral system and, if technical adjustments such as a rise in the price of gold can hasten the return of such an open system, all men of good will must examine the suggestions".

British Interests in Canada: During the past two years and particularly of recent months many important and highly competent British mining and

exploration companies have undertaken activities in Canada. This has been made possible by a more liberal policy on the part of the Bank of England and the British Government.

It is suggested that ways and means be considered of giving all encouragement to such enterprises. Canadian resources will be soundly developed by such companies, and the dollars so earned will stimulate and sustain Canada's trade with Britain and other countries of the sterling area.

Canada's economic ties with the United States are already very strong. Anything that can be done to fortify our economic bonds with Great Britain will contribute to a sound balance and diversification of interests and strengthen Canada in her role as North American partner in the British Commonwealth.

The British Market: It is of course of the greatest importance that Canada maintain a foothold in the United Kingdom market for its non-ferrous metals, particularly copper, lead and zinc. It is therefore a source of satisfaction to learn that as a result of recent conferences British officials have agreed to an extension of the list of materials which can be imported into Great Britain on open general licence; it is understood that copper will be one of the items on which restrictions will be removed at an early date.

There always remains the possibility that if this resulted in an embarrassing drain in dollars, restrictions might have to be imposed. But it is clear that the British Government is doing all in its power and that we should be prepared to reciprocate by all means at our command, and in particular to press for any measures which may hasten and promote currency convertibility.

Conclusion: The mineral resources of Canada have become a factor of world importance. We wish to see them used not only to build up Canada itself but to contribute to the strength of the free world, wherever they may be required.

As a great trading nation, Canada cannot prosper unless firm foundations of multilateral trade are secured and assured.

As steps toward this end, it is necessary to continue to negotiate for the removal of obstructive trade barriers; to encourage investment in Canada by countries of the sterling area; to maintain stable currency relationships and to raise the price of gold, as one measure towards creating adequate national monetary reserves and currency convertibility.

It is suggested that by moving and influencing other countries to move along these lines, Canada will not only advance its own interests but will contribute substantially and constructively to the promotion of international trade and the economic prosperity of nations of the western world. (See Appendix C).

The CHAIRMAN: Do any honourable senators wish to ask questions of the witness?

Hon. Mr. TURGEON: Have any figures been given to the world at all since the end of the last war as to the production of gold in Russia and Russian-held territory?

Mr. WANSBROUGH: Not to my knowledge, senator, have any been given in which anybody puts any reliance. I saw a figure recently that suggested that Russia's gold production was 2 million ounces per year. Ours is something like 4¼ billion ounces of gold per year; but I do not believe anybody would really put any credence in any such figures, which are really not more than guesses.

Hon. Mr. KINLEY: How do you account for the American tariff restrictions on base metals that they do not produce themselves? What would be their object?

Mr. WANSBROUGH: Mr. Chairman, this is a point upon which I should like to call in reinforcements.

The CHAIRMAN: Certainly, sir.

Mr. WANSBROUGH: I should like to ask Mr. Bateman, who is more familiar probably than anybody else in this country with these questions, if he would care to answer that question.

The CHAIRMAN: Will you come forward, Mr. Bateman? Would you ask the question again, honourable senator?

Hon. Mr. KINLEY: How would you account for the American tariff barriers against base metals that are not produced in their own country? Their policy is to bring in the raw materials at the lowest possible rate, I understand.

Mr. BATEMAN: Well, in all the base metals they are important producers.

Hon. Mr. KINLEY: Not in nickel, are they?

Mr. BATEMAN: Except nickel, yes. They are not self-sufficient in the primary metals, copper, lead and zinc; they have to import a certain percentage of their requirements—approximately 30 per cent—in order to meet their own needs.

There has, however, been a decline in the price particularly of lead and zinc. The desire to protect their own industries arises particularly in the west from some of the high cost producers. True, in most cases their production in the United States is not a very important factor; but, as you probably know, the pressure groups in the west—that is the silver block, the wool block and the mining block—all work together. The theory behind this is to protect their own industries.

I do not think that special consideration has been given to the adverse effect upon American industry. For instance, in these proposals under the Simpson Bill, they want to establish a base price of 15½ cents for lead and zinc, which some of them believe is the minimum price to operate their properties profitably. The present price of zinc is 11 cents; so that would add another 4½ cents per pound to the cost to the American consumer. With the American consumption somewhere in the order of more than a million tons a year, that would mean an added cost to the consumer of some $90 million.

The effect of this proposal on the sliding scale is rather extraordinary in some respects. In the case of zinc concentrates, for instance, the present price of domestic zinc in the United States is 11 cents, and the duty on zinc concentrates is 3·99 cents per pound, but, I would point out, our producers realize only about 3¾ to 4 cents a pound. You can readily see that the duty would cut off the shipments of concentrates to American smelters, which cannot operate without these important concentrates.

Hon. Mr. KINLEY: Is there perhaps not an element of protection for Canada in these duties?

Mr. BATEMAN: No.

Hon. Mr. KINLEY: For instance, Canada is right next to the United States, and if we got over without duty some other country might do the same thing.

Mr. BATEMAN: No; the United States has no consideration for Canada in these things. They are thinking only of a limited group in their country.

Hon. Mr. KINLEY: How do they deal with tin?

Mr. BATEMAN: Tin is free.

Hon. Mr. KINLEY: That comes mostly from South America, does it?

Mr. BATEMAN: From the Far East and the Middle East.

Hon. Mr. HORNER: Do they get any from Malaya?

Mr. BATEMAN: Yes; they have to buy from all the tin sources of the world, Malaya, Indo-China and all the other producing countries.

Hon. Mr. KINLEY: But they do not give us a quota on which there is a lower tariff?

Mr. BATEMAN: No.

Hon. Mr. KINLEY: They do that with some products in order not to interfere with their own production.

Mr. BATEMAN: There is no quota and there is no consideration for Canada in these proposals. The fact that we are a close neighbour and handy to the United States, and it would be cheap and easy to ship, is not a factor.

Hon. Mr. EULER: There is a small duty on nickel, is there not?

Mr. BATEMAN: One and a half cents a pound.

Hon. Mr. EULER: That does not really hurt Canadian industry very much, does it, because we have to have our nickel anyway and it gives them a bit of revenue.

Mr. BATEMAN: That is true. Of course there is really no more excuse for the tariff on nickel, than there would be for a tariff on tin.

Hon. Mr. KINLEY: Of course the nickel industry in this country is, I suppose, owned by American interests.

Mr. BATEMAN: No, no. For instance, I am a shareholder myself, and I am a Canadian.

Hon. Mr. HAIG: I am a shareholder too.

Hon. Mr. KINLEY: How big a factor is bauxite in the manufacturing of nickel in Canada?

Mr. BATEMAN: That has to do with aluminum.

Hon. Mr. KINLEY: What about the Kitimat development at British Columbia?

Mr. BATEMAN: That too is aluminum.

Hon. Mr. HAIG: It is Sherritt-Gordon that produces nickel.

Hon. Mr. BURCHILL: Mr. Chairman, this brief is an excellent document, and we are very much indebted to these gentlemen for coming here and giving us information that every Canadian should have. I am interested in the remarks of the witness on the effect of gold on international currencies. Some of us remember the days when the pound, for instance, was tied to gold. Is that not so?

Mr. BATEMAN: Yes.

Hon. Mr. BURCHILL: We have moved from that until today we are not interested in Britain's reserves of gold; all we want to know is how many Canadian or American dollars she has. Gold seems to have disappeared entirely.

The CHAIRMAN: I think Britain has a lot of gold reserves today.

Hon. Mr. BURCHILL: But what effect has the national gold reserves on the currency of any country today?

Hon. Mr. HAIG: If they have enough gold they can buy our goods.

Mr. BATEMAN: I have my own ideas on the question, but I would not be prepared to express them.

Hon. Mr. TURGEON: Bearing out what Senator Burchill has said, it will be remembered that a few years ago, shortly after the announcement of the Marshall Plan for European aid, the then Foreign Minister of Great Britain suggested that the best way to give aid would be to lend to the United Kingdom and other countries. How does that relate to the question asked by Senator Burchill?

Mr. WANSBROUGH: Might I call for further reserves, Mr. Chairman, in the person of Mr. Birks, who is prepared to deal with the gold question.

Mr. R. T. BIRKS: Mr. Chairman, I am glad to have the opportunity of saying what I know on the gold question. During the war, you will recall that a certain British economist stated that there were only two people who understood international finance. He was one, and he was not sure who the other one was.

On this question of gold, I can look back to the time when the Right Honourable Mr. Bennett told us gold miners that we had saved the national credit of Canada, because gold was one commodity that could be sold in the United States in almost endless quantities; they would take it at $35 per ounce without any restrictions, quotas or tariffs. Speaking as a gold miner, and seeing the way trade doors are being closed against us, I have a feeling that maybe gold miners will again help to save the credit of Canada in the not-too-distant future.

One complaint we have is that we do not want to sell gold at $35 an ounce when it may have a real or contingent value of $52 or $55 an ounce, which is the price which gold is commanding in a lot of the markets of the world today.

In this hemisphere we are not used to gold, in the sense that restrictions have been placed upon the holding of gold; but when we get to Europe we find that the French peasants, for example, are terrific hoarders of gold. It is estimated that they hoarded about half a billion dollars worth of gold last year, and the further east one goes the keener is the demand for gold.

It is not generally known—although you gentlemen here are well aware of the fact—that the Standard Oil Company of New Jersey has to pay Iraq and Arabia in gold sovereigns. They will not accept any other currency; and it is reported that one of the sources of dispute between Iran and Great Britain is that Iran wants gold sovereigns, which some of her neighbors are getting, and which Britain at the moment is not prepared to pay. So that we feel that gold has a great value and is a commodity which under normal conditions can be exchanged freely between countries. Any country will accept it without any tariff, without any regulation. You get an immediate credit, and you can buy whatever you like in that particular country.

The CHAIRMAN: Yon can buy any currency in the world with gold.

Mr. BIRKS: You can buy any currency in the world with gold. Yes.

The CHAIRMAN: It is a sure thing. You have a sure bet.

Mr. BIRKS: I have one suggestion to make to the committee. At the present time a certain number of gold miners are allowed to export gold. We have to go through what we may term a lot of skullduggery.

We take refined gold: it has to be debased to 22 carats, under the nominal plea that it is going to be used for industrial purposes. It is shipped to Switzerland, then refined back to its original fineness of 99·8 per cent; then it is smuggled into France, and sold mostly in France. However, recently there has developed a tremendous practice of retaining it in Switzerland and turning it into British sovereigns and French napoleons and Mexican $10 pieces. But the smugglers—shall we call them—who are doing that are then receiving about $50 to $60 an ounce for their gold, because the minted coins have that much more value. It is also significant—if you read the *Wall Street Journal*—that the government endeavoured to prosecute these gentlemen for counterfeiting, and the Swiss courts and the Italian courts said "They are not counterfeiting. Gold is not currency. As long as they are delivering sovereigns of the proper weight and fineness it is not counterfeiting in any way". As a matter of fact, if you tendered a sovereign in

England to buy a hat you would likely be arrested; so it really is not currency. The result is that this association, shall we say, of international smugglers are making anywhere from $10 to $15 on the gold that is being sold by Canadian miners at the present time, and they say there is an absolutely unlimited market for it, whether it is in India, or even in China, for it is being shipped in large quantities to China at the present time. It must be borne in mind that all these European countries have no currency. They do not trust paper. And in the Far East the gold coin is a real possession. That is the reason we think there should be a higher price for gold.

If I might add one constructive suggestion, Mr. Chairman—

The CHAIRMAN: Certainly.

Mr. BIRKS: I would like to suggest for the consideration of this committee that we celebrate the Coronation year by coining discs of about one ounce,—call them "Elizabeth" if you will—certify that they are one ounce of pure gold, so many milligrams, and let us have a free market, so that people can come in here and buy them,—in fact, outsiders, resident and non-residents. Have a free market for gold. My impression is that they woud sell for about 50 per cent above the regular price, because gold is in unlimited demand; and as a gold miner I am quite satisfied to stand or fall by a free market in the commodity, without any restrictions as to ownership or export or anything of that kind.

Hon. Mr. EULER: Could you do then without a Dominion subsidy?

Mr. BIRKS: Very easily, I hope.

Hon. Mr. KINLEY: They are doing that with silver. They are giving "Elizabeth" silver dollars as a premium now.

Mr. BIRKS: Yes. I would hesitate to produce coins of the value of gold dollars, that is to say $35 or $50 gold pieces. My suggestion would be that we just call them "Elizabeths" and make sure that they are one ounce of gold, certified by the Dominion of Canada or some other responsible authority, and let the people hold them.

Hon. Mr. KINLEY: The question was asked of me in the north country, why cannot we coin gold? What harm could it do to the country? I could not find an answer.

Mr. BIRKS: We do not know where a free market would put us. But if we coined a disc of this kind, so many milligrams, I think sooner or later the government would be glad to come and fix a fair price for gold. It might be best for all parties concerned. In the meantime we would gain what that commodity is worth, and it would bring, I am sure, all the hoarders in the world who are now hoarding gold definitely into the Canadian market, and we would have a free market here for gold that would be of world-wide dimensions.

The CHAIRMAN: In other words, bypass the smugglers?

Mr. BIRKS: Bypass the smugglers. That is exactly what we would do, sir. We would bypass entirely all these people who are now dealing in gold. I do not think that the mines are getting really a free market in gold. I think it is being operated by something approaching a cartel, or something to that effect. I am told that in France, where the biggest market is, they work somewhat on the principle of Lloyd's. When a gold shipment is available, one dealer says, "I will take 3 per cent", another dealer says "I will take 6 per cent", and so on. If we are dealing with the same people at all times I doubt if there is a free market for gold in the gold bar. Of course it takes an assayer to say whether a gold bar is 99-9/10ths pure. If you had a coin, a dics and tossed it on the table, everybody would know it was pure, and take it accordingly.

Hon. Mr. HORNER: What action would the United States take supposing we were to implement the suggestion you make, of coining some gold?

Mr. BIRKS: It is against the rules of the International Monetary Fund.

Hon. Mr. HORNER: We are all tied up.

Mr. BIRKS: But, frankly, I do not place much confidence in the International Monetary Fund, because they are now permitting us to go through this skullduggery, debasing the gold, and having it refined, and finding its way into France. They are just putting their blind eye to the telescope. They know it is being done.

Hon. Mr. HORNER: But if we attempted to do it, the United States would threaten or institute all kinds of reprisals, and in effect forbid us to proceed in that way?

Mr. BIRKS: It is just a question how long we are going to be tied to the chariot wheels of the United States. As I said in a deputation to the Cabinet at one time, "I would like to know which of these gentlemen has to be elected in an American constituency." They did not have any answer to that; they have to be elected in Canada.

The CHAIRMAN: The United States alone do not run that Monetary Fund.

Mr. BIRKS: The United States have the biggest interest in it. Note that Chancellor Butler, Anthony Eden and Winston Churchill are all in favour of a higher price for gold. South Africa, of course, is in favour of it; and at a recent conference of the International Monetary Fund in South Africa, South Africa raised the question, and Secretary Snyder at once vetoed it. Their arguments, as Mr. Wansborugh very wisely pointed out, are three. First they say that it would be regarded as inflationary in their country, and they are a little concerned about the advantage it would give to the gold-producing countries. We must bear in mind that the British Commonwealth of nations is the greatest gold-producing group in the world. This group includes such gold-producing countries as South Africa and Canada.

Hon. Mr. HORNER: And Australia.

Mr. BIRKS: Yes. Russia is mentioned here, and from the information I have about that country I believe the figures mentioned by Mr. Wansborough are likely correct. But we have no idea of the cost. We know that cost does not mean anything to Russia. If they say they want one ounce of gold it would not make any difference to them whether it cost them \$60 or \$70. A short time ago Russia announced that they were going to begin some kind of a gold ruble. They wanted to get on the gold standard. My own impression is that the quickest way to make Russia give up is to have free gold, for I do not think she could stand the pressure.

Hon. Mr. KINLEY: The United States has an enormous supply, has she not?

Mr. BIRKS: \$23 billion.

Hon. Mr. KINLEY: The United States would be in the circle of nations that would benefit.

Mr. BIRKS: They would benefit the most because unquestionably they have the largest supply of gold in the world.

Hon. Mr. KINLEY: The United States money is the only money that is redeemable by gold.

Mr. BIRKS: There is the Swiss franc.

Hon. Mr. KINLEY: Why would Canadian money not be redeemable by gold? Would that be under an international agreement?

Mr. BIRKS: American money is not actually redeemable in gold. You have gold bars to back up the money, but you cannot get ten or twenty dollar pieces in gold. They would sell you gold for commercial purposes after they investi-

gate very carefully that it is for commercial purposes. By way of another subterfuge they make long gold chains and gold elephants and ship them off to Bangkok, Malaya, and other places, and get fancy prices for them.

Hon. Mr. GOUIN: What is the reference in the brief to countries which are permanent markets?

Mr. BIRKS: You will notice almost every newspaper carries a report from Paris, France, where the price of gold is now fixed. The price has been as high as $39 or $40 an ounce recently, but it has slumped to $37 an ounce, which is still $2 an ounce above what we pay for it here. Our government pays us in the equivalent of United States funds, so that gold mines, for example, have been taking a discount on their product for the last few months. We get paid $35 an ounce less the current week's average rate of discount. For those of us who have long memories, this is fine so long as they will pay us in American dollars when the exchange swings the other way. At that time we will be glad to take the benefit.

Hon. Mr. KINLEY: Why should the United States fix the price of gold when they are not a producer? Should not the producers do that?

Mr. BIRKS: Our government and all governments were under the impression that the United States was the only place where you could ship in gold bricks in quantity and get American dollars for them. I understand that our government had a rude awakening when they found out the demand for this free market. When we asked the Minister of Finance to give it to us particularly for our base metal mines, which did not share in the gold subsidy, we were told "You will find the gold market is a snare and delusion." That is not the case. They shipped over a million ounces last year at anywhere from 5 or 10 cents above the price paid by the Mint. The government was somewhat surprised to find the extent and width of that market.

Hon. Mr. CAMPBELL: Mr. Birks, is it not almost essential that there be a minimum price for gold and a ready market available?

Mr. BIRKS: I would say so, if you had a really free market. I think we could stand and fall on a free market because countries would buy gold in order to correct their exchange position. For example, in that organization of western powers including Luxembourg and Belgium, there is a provision that the balance at the end of each month has to be paid in gold. They have to have a balance for it.

Hon. Mr. CAMPBELL: That is pretty revolutionary thinking because we have always had a fixed price of gold in relation to the value of the currency of the country.

Mr. BIRKS: We have always fixed it. In order to prevent these gyrations of currency, if we had a fixed price of gold at a fair price you would not have a wide fluctuation of gold, and it would be much better. There was a time when the sovereign was worth 4.86⅔ in gold and the United States Eagle was fixed at $10, and they just valued them back and forth in terms of each other, depending upon the vicissitudes of trade and commerce from month to month. I think that would prevent the wide gyrations in exchange which present difficult problems. You have to gamble on exchange now and it is hard to carry on business under these conditions. Frankly, I believe the ideal condition would be to fix a higher price for gold because commodity prices have risen nearly 200 per cent. Since the price of gold was fixed at $35 an ounce. An ounce of gold will buy only about half the number of bushels of wheat that it would in 1935. I think the ideal arrangement would be to have a fixed price for gold all over the trading world, and if we fixed it high enough it would help good old Great Britain, for instance, to fix her own gold resources. Our own government is to be congratulated, for it has more gold on hand now than

at any time since confederation. In days gone by, we used to ship gold to Washington before the bricks were cold, but nowadays Mr. Abbott is holding on to his gold religiously.

Hon. Mr. KINLEY: He does not need it now.

Mr. BIRKS: He may if the exchange goes against us.

Hon. Mr. KINLEY: The story we were told about the export of minerals is not quite right. I think it looks very good.

The CHAIRMAN: There has been no evidence of Russia offering gold to the free world.

Mr. BIRKS: Not that we know, but we do know that when Russia overran all the western countries the first place they stopped was the National Bank. They picked up all the gold bars and all the gold coins that could be found, and all the European countries they have overrun have been stripped of all their gold. That is one way we have of arriving at their treasury, because we know how much they stole from Germany, Czechoslovakia, and Austria. They just backed their trucks up to the First National Banks, and with the threat of machine guns, they cleared all the gold out. That gold is now in Russia.

Hon. Mr. CAMPBELL: Are you familiar enough with the gold question to be able to say what effect an increase in the price of gold would have upon the economy of the United States under present conditions where the United States dollar is not definitely tied to gold?

Mr. BIRKS: I am not, sir, but I think the economic committee have reported that if it were properly handled there would be no inflationary tendency. That is contained in the report by the committee of experts of the United Nations. We feel that it would not disrupt the American economy.

Hon. Mr. CAMPBELL: I never quite saw how it would, but I would like somebody to elaborate on it.

Mr. BIRKS: There is one thing that might be said. There was a certain well-founded rumour that Great Britain and France and the other countries proposed to the United States that they revalue their gold from 23 billion—increase it 50 per cent, which would be about 11 billion, and give them the 11 billion for their foreign aid, and so on, and then it would cost the American taxpayers nothing.

Hon. Mr. EULER: That gold does not all belong to the United States, does it?

Mr. BIRKS: The 23 billion does. For our figuring, 23 billion belongs to them. Incidentally, they have not gained anything in the last year or two, have they, Mr. Wansbrough?

Mr. WANSBROUGH: No.

Hon. Mr. TURGEON: I understand that the United States is afraid that Russia might start an influx of gold. Supposing the price went up and the United States refused to buy new gold, what would be the effect of that?

Mr. BIRKS: I would think that the United States should not be saddled with the responsibility. I think the prices should be so many shillings in England, so much in the United States and so much in France.

Hon. Mr. TURGEON: If the United States refused to buy, would the other countries be afraid to buy?

Mr. BIRKS: I don't think so, sir. I do not see why they should. It is the best currency in the world. For example, I do not see why Canada should hesitate. There is another story, that when the United States was complaining about the price of tin and rubber in the Malay Peninsula the suggestion was made that they offer gold. They did make a tentative offer of gold, and when they found the terrific price gold commanded they withdrew the offer right away, because in the far east and in the north east the people like gold coins,

they have not got banks, and a dowry for a daughter, and an accumulation of gold coins to wear around her neck, and things of that kind, appeals to them; and the French are the greatest hoarders of gold in the world, and they have reason to, because they have seen their franc go down to a nickel.

Hon. Mr. KINLEY: I had a Polish man working for me; he was a prisoner in Germany, and afterwards got to Siberia and then to Greece. One day he said to me, "Mr. Kinley, is there no gold?" I said, "Gold in this country—that is only a nuisance." "Oh", he said, "gold is gold, Mr. Kinley." I always think of that. He knew.

Mr. BIRKS: It is a good point, and another weakness is that we take our gold here and put it in one spot, whether Fort Knox or Ottawa, and if a foreign country took over they would take that gold; but they didn't in France because the peasants put it under apple trees and everywhere else, and that is one reason they came back because they had the cash and the gold immediately available.

The CHAIRMAN: We take it out of a hole where we can get it and put it in a hole where we can't get it.

Hon. Mr. BURCHILL: From the gold mining standpoint, you would be willing to take your chance if all restrictions were removed, and go ahead and sell it?

Mr. BIRKS: Give us a free market and we will stand or fall. We don't expect any particular preference. We should stand or fall. If some are allowed to hold it, non-residents are allowed to take it out, and buy it, and so on, I think the industry as a whole would be perfectly satisfied, and I think it would be a grand thing for the country.

The CHAIRMAN: Any other questions?

Hon. Mr. CAMPBELL: I had a question to ask on the other metals. Mr. Bateman, I notice in the figures in the index of the brief presented here that we have substantially increased our percentage of exports of base metals to the United States in 1952 as compared to 1937 and 1939.

Mr. BATEMAN: Yes.

Hon. Mr. CAMPBELL: And that the percentages to the U.K. have fallen off.

Mr. BATEMAN: That is right.

Hon. Mr. CAMPBELL: I think you said that we got about 30 per cent of the United States business.

Mr. BATEMAN: No, I said the United States required imports to the extent of 30 per cent of their requirements.

Hon. Mr. CAMPBELL: What does our business with them amount to?

Mr. BATEMAN: I would think about 50 per cent of their import requirements.

Hon. Mr. CAMPBELL: And what about the U.K.?

Mr. BATEMAN: Oh, the U.K.—their imports from Canada would be about 25 per cent of their requirements.

Hon. Mr. CAMPBELL: What about Canada?

Mr. BATEMAN: That is 25.

Hon. Mr. CAMPBELL: Is there any significance in the change of figures between 1937 and 1939 as compared to 1952 shown in this appendix?

Mr. BATEMAN: Well, there is this, that from 1937 to 1939 we had practically no exports to the United States. For instance, we did not ship a pound of copper to the United States at that time. Seventy per cent of our exports of copper went to U.K. It was an unfortunate thing to have so many eggs in one basket, and it is correspondingly unfortunate to have ourselves so dependent upon the United States at the present time.

Hon. Mr. KINLEY: We do not produce enough steel for our own use in Canada, do we?

Mr. BATEMAN: No.

Hon. Mr. KINLEY: How much do we import from the United States?

Mr. BATEMAN: I am not an authority, but I think somewhere around a million to a million and a half tons.

Hon. Mr. KINLEY: What per cent would that be of our production?

Mr. BATEMAN: We produce roughly 4 million.

Hon. Mr. KINLEY: Therefore, we require 25 per cent?

Mr. BATEMAN: Roughly.

Hon. Mr. KINLEY: Of course, we could not expect to produce on a larger scale in this country because of the limited market.

Hon. Mr. CAMPBELL: Is the price that we receive in the United States for our base metals more favourable than the U.K. price?

Mr. BATEMAN: Copper, we have been receiving a little more in Great Britain than we have in the United States. With zinc and lead we receive more in the United States.

Hon. Mr. CAMPBELL: What about the competition in so far as the British market is concerned?

Mr. BATEMAN: There has been the reopening of the London Metal Exchange. London has again resumed its position of making the market.

Hon. Mr. CAMPBELL: The world market:

Mr. BATEMAN: For the free world.

Hon. Mr. CAMPBELL: Yes, the world market.

Mr. BATEMAN: The world market.

Hon. Mr. CAMPBELL: And that may have some very definite significance, may it not, on our markets and price?

Mr. BATEMAN: Yes.

Hon. Mr. KINLEY: With regard to iron ore, when will the development in the eastern part of Canada be producing?

Mr. BATEMAN: I think probably some time next year, will it not?

Mr. WANSBROUGH: By 1954 is the motto. It is expected to start shipping iron ore in 1954.

Hon. Mr. KINLEY: Then we will be exporters of iron ore, probably?

Mr. WANSBROUGH: We are now.

Hon. Mr. KINLEY: What is that going to do for us?

The CHAIRMAN: That hardly comes under metals, does it?

Mr. WANSBROUGH: We are getting a little out of our range, Mr. Chairman.

Hon. Mr. KINLEY: We were talking of exchange, and I was thinking of that feature.

Hon. Mr. CAMPBELL: Mr. Chairman, may I ask one final question of Mr. Bateman?

The CHAIRMAN: Yes.

Hon. Mr. CAMPBELL: In your opinion is the opening of the metals market in London likely to be less beneficial to us than the policy of bulk purchasing of the past.

Mr. BATEMAN: I would think from the long-range point of view, the establishment of free markets is the thing to look forward to.

Hon. Mr. HAIG: Like Senator Burchill I favour the report we have been given very much; I do not pretend to have the information which it purports to give us. My problem is that the brief offers no solution to the matter.

Hon. Mr. EULER: It suggests a free market.

Hon. Mr. HAIG: But I am thinking of it from the American point of view. If I were an American why would I open up to give Canada a market, if my own people were not going to benefit? I say there has been no suggested solution for our problem. I have attended most of these meetings, and in each presentation which was made our problem was clearly outlined—and this presentation today is perhaps the most able of them all—but such solutions as were offered could not come from Canadians, but from somebody else over whom we would have no influence.

Mr. BATEMAN: Do not forget that the national security of these two countries is dependent upon an adequate supply coming from the metal industry.

Hon. Mr. HAIG: I agree with that.

Mr. BATEMAN: The experience of the war certainly showed us that the great portion of those supplies could be gotten with assurance only from North America, and particularly from Canada.

Hon. Mr. HAIG: I agree with that also.

Mr. BATEMAN: If the duties are increased it raises the cost to the United States, and we destroy the opportunity of developing a market for supplies necessary to meet their requirements; and further, you add a permanent burden to the people of the United States.

Hon. Mr. HAIG: I agree with all that, but it is not a solution to our problem. I do not happen to be a member of the United States Senate and you are not a United States citizen and therefore not capable of influencing their political philosophy. How are we to influence them politically so as to prevent them from doing two particular things which they are now doing? First, whenever a primary product of any kind threatens to compete with the American market, there is a loud cry and Congress then invokes a law which shuts out that commodity. And secondly—

Hon. Mr. MACLENNAN: And we can do nothing about it.

Hon. Mr. HAIG: That is what I say. I want some of these gentlemen to come forward and tell us how we are to meet the problem.

I see that the Prime Minister of Canada is going to Washington to confer with the President. Now, I am not sure that the President has as much power as some people think he has. The system of government in that country weakens the control of the executive by reason of the fact that the executive is not in a position to help control the vote. One could not imagine the House of Commons here voting for something the Prime Minister did not want. If that happened, he would be out of office; but the United States Senate have been doing that right along for the past four or five years, and are still doing it.

What do you gentlemen want us as legislators to do about this problem? And I should tell you that we are just as anxious, if not more, than you are to find a solution. Telling us the facts will help, but it is not enough. You are experts in this line: Now tell us what you would have us do.

It has been said that we have to get 15½ cents a pound for zinc and lead; therefore, we should put on a tariff to keep the price up to that figure. I note that one member of the House of Commons has offered a solution of the problem.

Hon. Mr. EULER: That is a matter of politics, and these gentlemen here are not politicians.

Hon. Mr. HAIG: Everybody is a politician.

Hon. Mr. MACLENNAN: These men are no more politicians than we are. What can they do that we cannot do?

Hon. Mr. HAIG: I want to know what suggestions they have to make.

The CHAIRMAN: They have told us one commodity that the United States does not wish to keep out—gold.

Hon. Mr. HAIG: But they want to take it at a fixed price.

The CHAIRMAN: No; the Monetary Fund fixes the price.

Hon. Mr. HAIG: It is really the United States that does it. Snider, the Treasurer, told the Monetary Fund what it could do.

The CHAIRMAN: Has the United States a majority of directors on the Monetary Fund?

Mr. BIRKS: I think they have a majority of the money in the fund—that is what shouts.

The CHAIRMAN: Have they more money than the rest of the countries put together? We are committed for $300 million.

Mr. BIRKS: I think they have.

Mr. WANSBROUGH: No doubt they have a dominating voice.

Hon. Mr. HAIG: Mr. Chairman, the sooner we in Canada realize that the United States is today the greatest nation in the world from our point of view, the better off we will be. The next problem is how to influence them to realize their world responsibility. I am one of those who believes that Russia is playing a shrewd game: She is going to try to wreck us by breaking us.

You gentlemen tell us any suggestions you have for a solution of the problem. Gold is one. Has anybody else any idea?

The CHAIRMAN: I should like to raise another point with Mr. Birks. I notice that Mr. Snider of the United States has warned the Fund many times about Communists. No notice was taken of his warnings until it was proven that the secretary, one of the highest officials in the fund, was a Communist. It was only after several warnings from Mr. Snider that any attention was paid to it, and he was thrown out. But he had an influential office in the Fund, and he would not do anything to help the free world in the matter of gold. Since that time several officials have been discharged.

Mr. BIRKS: That is why I said I am not afraid of Russia, because I believe we could drive her out into the open by having a free gold market.

The CHAIRMAN: They are trying to strengthen the ruble by getting all the gold in Russia behind it, and keeping the support of the satellite countries. As an ex-banker I can see the picture plainly.

Hon. Mr. KINLEY: Mr. Chairman, in our consideration of this problem we should keep in mind that we are talking from the top of the heap. We have the best export trade in the world, and our money is worth more than that of any other country. We are in an envious position.

The CHAIRMAN: Our money is only at a half of one per cent today.

Hon. Mr. KINLEY: The United States will look to us for a remedy, because they regard us as the people who have the bag.

Hon. Mr. HORNER: They would do considerably better if the positions were reversed and our money was worth less than that of the United States. We are tied up with them in the sale of our wheat from Western Canada and are paid in American funds; the gold producers are paid by American money; and unfortunately all we can take from the situation today is pride in our position, but we are losing money.

Hon. Mr. KINLEY: Do less trading, and you will make more.

The CHAIRMAN: A great many companies now pay their dividends in American funds and we have to pay 15 per cent on them.

Hon. Mr. HAIG: American money is coming up these days, while ours is going down. The matter depends on the investment of American capital in Canada.

Hon. Mr. KINLEY: I like the story of the export of minerals. It shows a splendid growth from 1951 to date. There has been a phenomenal increase in our export of minerals, even to the United States.

Hon. Mr. HAIG: My honourable friend does not own any stock in the Hudson Bay Mining and Smelting Company, or any base metal mining company or he would not talk that way. The way things have gone over 1951 and 1952, I am afraid, in the light of what these gentlemen tell us, that zinc and copper are on the skids. How can we stop it? They have taken our nickel. They have got most of it tied up for contracts and development work. It is all right to say that we had a good trade in base metals in 1952 and earlier; they were then stockpiling metals for the war in Korea, and possible trouble elsewhere. Now they think they have a pretty good stockpile ready, and they are cutting us down.

The CHAIRMAN: There may be a reason for them to start stockpiling for Indo-China. Any further questions?

Hon. Mr. KINLEY: Have we a trade in base metals with European countries?

Mr. BATEMAN: Very small, outside of the United Kingdom.

Hon. Mr. KINLEY: Where is Germany getting her base metals?

Mr. BATEMAN: They are getting some from overseas, including a little from us, but mostly from European sources.

Hon. Mr. KINLEY: And Japan?

Mr. BATEMAN: We have not begun to pick up our trade with Japan yet. I don't know what is going to be the outcome. From 1937 to 1939 about 70 per cent of our exports of copper, lead and zinc went to the United Kingdom, and the principal outlets in addition to that were Germany and Japan. Of course the war interrupted those markets. Germany is only recently coming back as a big manufacturing nation. Japan is just starting, and we certainly have not picked up our markets there yet. Of course as a matter of fact we could have developed a bigger market with those countries had it not been for the fact that, following Korea, the United States asked us to curtail our exports to these traditional markets in order to give them additional supplies, and they gave us a practical assurance that we could count on a continuing market. In the present temper of the United States legislators, however, we do not know from day to day what will happen.

Hon. Mr. HAIG: The present Congress is more protectionist in sentiment than the one that went out. There is no doubt about that.

Mr. BATEMAN: The only thing we can do is to try to impress them with the fact that it is to their interest as well as ours to allow for free interchange. The alternative is something one does not want to contemplate, because it would be a violation of the principle we are trying to adopt—that of freer trade. We do not want to adopt retaliatory measures unless they are necessary.

Hon. Mr. CRERAR: I am sorry I missed the earlier part of this very interesting discussion. I am bound to say I cannot feel so gloom about this whole situation as some of my colleagues here do. After all, we always see the worst side of our American friends. They are great people to get out on the street and wash their dirty linen and let the world see the process. But it is quite obvious, certainly since the war, that the best thinking in the United States is against the policy of economic nationalism. We have had reports from one or two presidential inquiries set up by President Truman. Congress is a bit upset at the moment. I understand that President Eisenhower has lately started a new commission of inquiry, headed by Lewis Douglas, who at one time was principal of McGill University.

Mr. BATEMAN: Senator, every time they are faced with a new issue, all they do is set up a new committee.

Hon. Mr. CRERAR: Well, that is true. Of course I might say, for the information of Mr. Bateman, what I think he knows, that that is a device which is known beyond the borders of the United States. But they must find new supplies. Their basic supplies of base metals are dwindling, their population is increasing; the United States can no more live to itself today; and if it tried it, within a few years there would be a change of government down there. I am bound to say that in the Republican party there is a pretty progressive wing of enlightened people. The Democratic party there has usually been the party that believes in freer trade. I hope that we shall have a much clearer picture of this whole thing a year from now than we have now. After all, President Eisenhower has been in office only a few months. Many changes have to be made, and I think those changes will come about.

Hon. Mr. MACLENNAN: You have all the confidence in the world in Eisenhower. So have I. But will those fellows go along with him? That is the great trouble.

Hon. Mr. CRERAR: Some of those fellows will not go along with Eisenhower.

Hon Mr. MACLENNAN: I am afraid the majority of them will not.

Hon. Mr. CRERAR: But I have a good deal of confidence that, in the event, Congress will go along with him.

Mr. BATEMAN: We may be ruined in the meantime.

Hon. Mr. CRERAR: No.

Hon. Mr. EULER: It has been said that we have not had any suggestions for correcting this situation from the gentlemen that made their submissions here this morning. I for one do not think we can expect anything very definite from them. They have studied the things that may be done to correct the situation, but, as Senator Haig says, they cannot possibly be accomplished unless the United States Government or the Congress can be convinced that they ought to do what is recommended. My impression is that while President Eisenhower is favourable to removing some of these restrictions, Congress at large—a Republican Congress, which he does not really control—is not. I was going to use an expression which perhaps I should not use: generally speaking, the United States does not "give a damn" about any country but their own. I think that, while we know that in the long run their policies will prove to be wrong, because they would result in a weakening of allied countries such as Canada and other states behind the Iron Curtain we shall have to try to convince them that they are wrong. There is not very much otherwise that can be done. So that the only thing I believe we can do—and I do not expect these gentlemen before us are going to do it—is to have the Government of Canada or anybody else with any influence try and convince the United States Government that they are wrong, that they should correct their attitude. What else can be done?

Hon. Mr. MACLENNAN: Nothing.

Hon. Mr. EULER: You must convince them they are wrong.

The CHAIRMAN: It is certainly a job for diplomacy and government. If there are no further questions we have another representation to be heard.

Mr. WANSBROUGH: May I take this opportunity of thanking the honourable senators very much indeed for the privilege of allowing us to come before them, and for the courtesy they have shown us.

The CHAIRMAN: We have representatives from the Canadian Importers and Traders Association Incorporated. These gentlemen are Colonel H. C. MacKendrick, General Manager; Mr. Thomas Oakley, Past-President, and Mr. M. E. Corlett, Legal Counsel. I believe that Mr. Corlett wishes to speak first.

Mr. CORLETT: Mr. Chairman and honourable senators, on behalf of the Canadian Importers and Traders Association we would like to thank this committee for permitting us to express our views on this far-reaching problem, the subject matter of a resolution which the honourable Chairman sponsored in the Senate. With me today is Colonel H. C. MacKendrick, General Manager of the Association, and Mr. Thomas Oakley, a businessman in Toronto, a Past-President of the Association, and who was perhaps more than any other importer the guiding genius in the establishment of this Association some twenty odd years ago. Mr. Oakley has always taken a great interest in matters pertaining to international trade, taking up a great deal of his time over and above his normal business duties. Besides being active in this Association he is very prominent in the Canadian Council of the International Chamber of Commerce. We have prepared a brief, but before delivering it there are certain introductory remarks which perhaps could be given to this honourable committee by Mr. Oakley.

Mr. OAKLEY: Mr. Chairman and gentlemen, I shall try to make my remarks as brief as possible because I realize that you have had a busy morning and your time is fully occupied. To introduce this subject I have given to each of you a little concise memorandum of the subjects which I am going to mention. As we understand it, your committee has two main purposes that it hopes to explore and achieve: The examination of ways and means whereby you may co-operate more effectively in the economic realm with NATO countries, and secondly, how you may succeed in expanding our trade with those countries.

Our Association is composed, as its name implies, of importers and traders who are vitally concerned in the accomplishment of these twin objectives of your committee. We have some ideas we should like to put before you. I was impressed by what the delegation you heard before us said with regard to finance and trade, and I was very interested too in the remarks of the Honourable Senator Haig with reference to how we might implement some program that would have the effect of expanding our trade. We realize that all our economy rests on our trade, and if we can do anything to expand that we are doing what we hope may achieve the improvement of our economic position in this country and the raising of our standard of living.

Referring briefly to this memorandum, I have put these points in succession. The first one I have noted down is that we as an Association fear that we may be headed for another world depression. In other words, the signs are already set, that we may first face a recession which may accumulate as it so often does. I will give my reasons for our fears in that respect as we go along. We think these depressions are caused by a cessation in the volume of international trade. International trade includes not only the trade between countries but domestic trade as well which each country does within its own boundaries. Trade contracts, and it usually contracts in the international field first because countries become very conscious of their own national economics and they seek to develop what we call a national economic consciousness that tends to exclude competition from other countries. Well, as you can understand, and as we have all experienced, that is a reactionary thing that creates a similar sort of conditions in the other country which we or others are trading with, and they set up similar barriers, the result of which is that trade contracts and we have to cut production. Because we cut that production we get unemployment, and because we get unemployment we have less spending money, and because we have less spending money we have this contraction of trade which really is what our depression amounts to.

Now, during the years that have elapsed since 1936, when the most serious effects of the world depression we passed through in the thirties, started to

lift, we found that economic nationalism, which was the cause of the depression, in our view, at any rate, had been held in check by four factors. The first of those factors was the fear of war, which resulted in stock piling and preparation. The second was the outbreak of World War II, which resulted in armament production and the industrial activity that accompanied it; and then following the war we had Marshall aid which consisted of monetary assistance for those who were in need of such assistance to rebuild their economy and get established on the basis that would permit them to take their place in the world as they did before the war. And since the Marshall aid program has run its course we had defence spending, which really brings us back to where we had gone in the first instance that first counteracted the fears of the depression, namely, stock piling and preparation again. What we fear now is that with a slackening of this defence spending we are likely to get along with that a slackening in industrial production, because defence spending has provided a sort of a forced draft that has accelerated industrial expansion for the purpose it was intended, and along with that it brings industrial activity in other fields which are affected by it. Now, if this slackening that we feel may take place does take place, because we are a little more satisfied that war is not imminent—perhaps because we feel we cannot afford to pay for all this defence production, whatever the reason, there do seem to be signs already on the horizon that we are likely to encounter that contraction in its forced draft of defence production. Now, the cycle, viewed in these terms, has been war, boom, depression, war. That is the cycle that we have been going through in the world, and that the world has been going through for a very long time. The only way that we can get out of this vicious circle is in international co-operation on the matters of trade, and we suggest that we set up an international control of trade and tariffs which will be on a scientific basis; it will have to be on a scientific basis if it is going to get international acceptance on the part of other countries; but we feel that it is so important to the world and so important to this country in particular, for our external trade represents 30 to 33 per cent of our total trade, that we should do everything we can to give a lead and perhaps encourage the acceptance on the international basis of some arrangement by which we can get a measure of international control of trade and tariffs, whereby countries will be willing to give up perhaps some of their sovereignty, that was dealt with so ably a few minutes ago by the delegation that preceded us here, and which they explained and further emphasized, namely, the lack of co-operation, the selfish viewpoint, the economic nationalism, that does so much to destroy international trade. And I am sanguine enough to feel that if we can put forward our ideas on a scientific basis, we will gain acceptance. And we are prepared to suggest to you how that might be done—that there is somewhat of that acceptance forthcoming from the other trading countries of the world, particularly those in the NATO group. We have already got the world bank, and the international monetary fund, and the extension of facilities in the international field to include the addition of those functions. The functions of trade and tariffs is not as big a step as you might at first think. At any rate, it is not beyond the realm of possibility.

With those introductory remarks I am going to ask Mr. Corlett to read our brief to you.

Thank you every much for hearing me.

Mr. Corlett: Mr. Chairman and honourable senators, the brief prepared by this association, which will be designed to elaborate upon the points made by Mr. Oakley, is as follows—and I think each honourable senator has a copy.

The Canadian Importers and Traders Association is national in its membership but international in its outlook and its influence. Its membership is wholly Canadian being comprised of some four hundred Canadian

businesses interested directly or indirectly in the importation into Canada of raw materials, semi finished products or wholly manufactured goods. These Canadian businesses are representative of Canada as a whole in both the geographic and the business sense. Members are resident in all Provinces of Canada from Newofundland to British Columbia and include wholesalers, retailers and manufacturers engaged in the business of importing goods or merchandise from other countries. In addition to those engaged in importing merchandise for their own account, our members include those who are engaged in the business of transporting, financing, insuring or advertising goods so imported but do not themselves buy or sell such merchandise.

The Canadian Importers and Traders Association believes that the best way for Canada to assist in developing economic collaboration and co-ordinated trade policies on a reasonably permanent basis is for Canada to provide an example to other nations of the benefits of a liberal trade policy.

It is difficult for one nation to persuade another free nation to adopt a particular economic policy and any attempt to do so may result in resentment and opposition. Therefore, it seems to our Association that by providing an example of a prosperous economy, together with a multilateral co-operative program, is the best method of encouraging other nations to fall in line.

We realize that much may be done at international conferences, both bilateral and multilateral, but feel that the strongest method for producing economic co-operation between nations is by providing a successful example of a free and co-operative trade policy.

In our opinion the best policy for Canada to follow may be summarized as follows:

Free Enterprise.—The Canadian Importers and Traders Association subscribes fully to the free enterprise system. By this we mean the fullest possible conduct of the business of the country by the individuals and firms engaged in the commercial and industrial activities of this country. While we recognize the need for public ownership and governmental operation of some public services in the interests of public welfare, we feel that such public ownership should be kept to a minimum.

Free Competition.—The Canadian Importers and Traders Association believes that business functions most efficiently and most economically under the stimulus of free competition. For this reason we are opposed to the creation of monopolies whether operated by governments or by individuals. We believe that free competition is the best stimulator and regulator of trade in both the national and the international fields.

Freedom of Currencies and Exchange Rates.—The Canadian Importers and Traders Association believes that where possible currencies and foreign exchange rates should be permitted to find their own values or levels. Canada has taken a lead in unpegging the Canadian dollar and allowing our currency to find its own value in terms of other currencies. This Association recognizes that the currencies of some countries are so unstable that they have to be supported by artificial means. However, all countries should be encouraged and perhaps assisted to balance their budgets and to live within their means so that the currencies of those countries would be free to find their own level. Only by so doing may the international trade of those countries be freed from the restrictions which must otherwise be placed upon it for the purpose of supporting the national currency values.

Invisible Tariff.—The Canadian Importers and Traders Association is strongly of the opinion that the so called invisible tariffs of all countries should be done away with. By invisible tariffs we mean the regulations or interpretations which may be issued under authority of the national customs act of the

various trading countries by the customs officers of those countries. Such regulations and interpretations are designed to unfairly tax imports from other countries and so prohibit or at least discourage trade in the goods so affected.

I may say that the classic example of the present day is the administration in the United States. As you know, the custom laws have plagued Canadian exporters; and an attempt has been made, and is still being made, to bring about a simplification of the law.

Hon. Mr. EULER: I was about to ask you if you had that one particular country in mind. Does it apply to other countries?

Mr. CORLETT: To give a rounded picture, I would say that Canada too has offended; but the policy of the government in recent years has been towards freer imports. I am thinking of the arbitrary valuation section in the customs act—I think it is either section 40 or 41—to which we resorted extensively in the depression days. What effect it had of a beneficial nature is hard to say. We have not resorted to it very much since 1945, for which importers are thankful; but nevertheless, that provision is still in the Customs Act.

The use of the invisible tariff by the United States has been very damaging to its trade with other countries from time to time. Canada too has from time to time and with the same damaging results made use of similar provisions contained in our own customs act such as the power vested in the Minister to determine the value for duty of the goods imported. Such valuations when applied are often unduly high with the result that trade in the articles so affected is discontinued.

Quotas and Restrictions.—The establishment of quotas and restrictions on the importation of goods from other countries has even a more damaging effect on trade than has the impact of a high customs tariff rate or a high customs tariff valuation. While the high customs tariff rate or valuation reduces and may even stop the flow of trade in goods so affected, the adoption of quotas or restrictions produces the same results and as a rule effects the prohibition or cessation of trade more quickly.

While the C.I.T.A. recognizes the right of any country to restrict the importation of certain goods from other countries which may be produced locally or nationally, this Association desires to point out that the cumulative effect of such restrictions is a sharp falling off in international trade.

The C.I.T.A. submits that if all trading countries in the free world would refrain from using these arbitrary methods, consumption throughout the free world would be increased and standards of living raised in all trading countries.

May I make one comment there by way of elaboration, which is in favour of the recent attitude of the Canadian government to the Geneva Agreements which, if and when they are ratified by the member countries, will to a large extent take care of quotas and restrictions. As we all know, unfortunately we are operating under a provisional protocol, and what will happen after the end of the year is hard to predict. In fairness to the government I must say that I believe it has gone about as far as it could. But as I say, the Agreements have never been ratified; I suppose the others are waiting until the United States takes the initiative. But if the principles which are embodied in the abridged Geneva Agreements, as distinct from the grandiose international trade charter which was drafted at Havana, is implemented and made binding upon the trading nations, then the problems relating to quotas and restrictions, which is so damaging to foreign trade, will be largely taken care of.

Accessibility to Markets.—The C.I.T.A. is strongly of the opinion that only by making the national markets of the free world accessible to its member countries can trade and employment be sustained and increased. Raw materials must be made available to all countries desiring to purchase those raw materials

at competitive prices. Also countries producing manufactured goods must be free to sell those manufactured products in the various markets of the free world on an equitably competitive basis.

Obstacles to International Trade.—Earlier in this brief we have mentioned some of the obstacles encountered by trading countries in obtaining accessibility to the various national markets of the free world. Such obstacles include:

(*a*) fixed exchange rates and blocked currencies.
(*b*) the current low price of gold.
(*c*) the use of invisible tariffs.
(*d*) the establishment of quotas and restrictions on trade.
(*e*) high or prohibitive tariff rates.
(*f*) imposition of internal or excise taxes on imported goods.

This Association believes that the greatest possible degree of accessibility to world markets and the least possible restrictions on trade will produce the best results. As our whole economic and political structure rests on our trade, both national and international, we are of the opinion that this consideration more than any other deserves our greatest attention.

The Question of Free Trade.—While this Association has already indicated its desire to give to international trade within the free world the greatest possible freedom of movement it does not go so far as to claim that absolute free trade is the immediate goal. We are of the opinion that as long as the great differences between the standards of living in the various trading countries prevail some regulation of trade between these countries is necessary. With this thought in mind we suggest for consideration the establishment by international agreement of a scientific international tariff system.

A Scientific International Tariff.—If there is any general agreement on the justification for a customs tariff it seems to be based on the acknowledged right of high wage countries to regulate or control the competition which they have to meet in their own markets from low wage countries.

It should not be too difficult to work out the average wage levels or average wage rates in the different trading countries. Once this has been done the relative labour costs in each country would be set down in order of sequence. It is quite true that wage costs are only a part, and sometimes a small part, of total production costs. Nevertheless for the purpose of regulating or adjusting competitive selling prices between trading countries this is the most reliable and the fairest index of price differences. It is also true that efficiency in production will vary between one country and another just as it often varies between one industry and another. It would be unwise and also unfair to protect and so perpetuate inefficiency which would result from a tariff which is too high based on relative production costs. One of the valuable corrective measures that competition brings about is an increase in efficiency and it should be encouraged, not curtailed. It is sometimes argued that one country has an advantage over another in the growth or production of raw materials, or of water power, and that these differences should be compensated for by national customs tariffs. Our consideration of this argument forces us to the conclusion that such differences are like climatic differences and that it is neither wise nor desirable that any attempt at equalizing them should be made.

One must also recognize the fact that wage levels in all countries are not fixed, but are fluid, changing with changing economic and trading conditions. We must also realize that one of the main purposes of production and trade is to raise standards of living and to enrich the lives of the people in all trading countries. These changes in wage levels should, therefore, be encouraged and recorded in the tables of national wage rates of all trading countries previously referred to.

After careful consideration of all the elements entering into the cost of production which are generally classified as raw materials, wages and overhead expenses, we are convinced that wages is the best and the fairest index of total production costs. This basis is, therefore, proposed as the basis for the construction of an international scientific tariff which it is hoped will be acceptable to all trading countries.

In the interests of prosperity and peace it is important that early agreement be reached by all trading countries on a scientific international tariff structure, and it is recommended that Canada should take a lead in submitting such a plan to the NATO countries which could be extended later to all trading countries.

By way of elaboration of this motion of a scientific international tariff structure: this is a matter that Mr. Oakley has given much thought to over the years; and you will see, honourable senators, that it is somewhat novel. Heretofore any principles relating to the administration of Customs laws have dealt with matters of evaluation for duty, dumping duty discrimination against imports by domestically levied excise taxes, for the most part, but at no time, to the best of my knowledge, has an effort ever been made whereby trading nations would get together and agree that when we fix the rate we will follow a generally agreed upon principle.

Hon. Mr. EULER: Would you rule out preference between countries,—for instance, the British preference?

Mr. CORLETT: Well, I think perhaps Mr. Oakley might answer that.

Mr. OAKLEY: I think, Mr. Chairman and gentlemen, that if we are going to get any policy that has international acceptance we have to forget political considerations. Now it is quite true that this country has built up its trade largely with the help of the British preference, but it is also true that we have passed beyond the stage where we can confine our trade within the orbit of the British Empire. I think we have to look at this thing realistically. We feel that the yardstick of wages is the only yardstick that has any hope of international acceptance. Wages are a measurable part of production costs, and what we are seeking to do in proposing a measure of this kind is to make it possible for the different countries of the world to trade with each other on the basis of fair competition. We recognize that there are different wage levels in different countries. Let us measure them. We will never equate them completely, but if we can equate them to the point where we can enable them to trade on a basis that is fair, then, I think, we have done something that will make a very real contribution to the trade of the world, and also to the improvement of the living standards of the world; and that is what we want to do.

In presenting this brief to you we have done so in its barest outlines. There are just two things about it that we wish particularly to emphasize. One is, we think that as somebody mentioned this morning, Canada can and should take a lead, that we should not wait for the United States to tell us what we can do and what they are going to do. I do not mean by that that we are going to act unilaterally. I do not think that would be wise. But I do think that we can give a lead in trying to get this international co-operation which, Mr. Chairman, your committee is seeking. In offering to lead we have to have something concrete to offer. I have the great admiration and the greatest praise for those who have conducted these tariff negotiations at Geneva and at Annecy and at Torquay. They are fine. But we are now in 1953, and there is some doubt as to whether those agreements are going to be implemented in all countries. In fact there is some doubt whether we are going to renew our own undertakings under these agreements at the end of this year.

Hon. Mr. EULER: No country has ratified them yet, has it?

Mr. OAKLEY: No. But we have as a matter of fact benefited by tariff reductions which were agreed upon at Geneva, and I think we should be grateful for those. But, without seeking to depreciate in any way what has been done at Geneva, we must recognize that fundamentally we and other countries have entered into a series of "horse trades". The horse trades may be good, we way have got a good horse, but it is not a very stable and permanent basis on which to build up trade.

Hon. Mr. EULER: "Stable" is a good word to use in connection with a horse trade!

Mr. OAKLEY: I have here a little booklet which I am going to leave with you, if I may, which will give in further detail—I do not want to burden you with too much detail—this international tariff plan. (See Appendix D) As I say, this is not the work of one man. A great many men have spent a great many hours, in fact years, in trying to develop something that could be of use. The fact that it is so different from what we are accustomed to makes it very difficult of acceptance without a great deal of consideration. However, I would like to submit it for your consideration, if I may.

The CHAIRMAN: We will have it entered in an appendix. Are there any questions that members of the committee would like to ask? We still have quite a bit of time on our hands.

Hon. Mr. HORNER: On page 5 of the Canadian Importers Association's brief it is stated: "It is quite true that wage costs are only a part, and sometimes a small part of total production costs." It is hard to think of any production which is not probably 85 per cent labour cost.

Mr. OAKLEY: Senator, I was thinking of the great many things which enter into international trade. For instance, some of the natural products, raw materials—for example, oil. The labour element or the labour content in the cost of oil is probably a very small proportion of its total cost.

Hon. Mr. HORNER: But you think of all the labour expended on dry wells. I don't know if the oil men would agree with you. I certainly would not. Or take the production of grain. A large part is labour costs. However, the comment I want to make is that it seems to me you have got down to grips with what we are facing in the different countries. It is a question of labour. I have been contending that all along, and the situation which we are facing today, I must admit, frightens me, when you look at it in the light of the lessons of history. One hears people boasting of the high standards of living here and in the United States, of shorter hours of work, higher and higher wages; and in the next breath they talk of world trade. Without some equalization in the matter of wages, it seems to me the two objectives are utterly impossible. How can one have short hours and high wages and trade with countries where people are willing to work for much less wages and longer hours? It seems to me that an agreement of the kind you have referred to would have to be worked out before we will get anywhere with international trade.

Mr. OAKLEY: I might say, in further explanation, that I could not agree more with what the honourable senator has said. We feel that if we can agree on a yardstick on which we may measure differences in production costs it would be a good thing.

Hon. Mr. MACLENNAN: And you think that is possible?

Mr. OAKLEY: Yes, I think that is possible. You have low-wage countries trading with high-wage countries, and the high-wage countries naturally say "We have to protect ourselves in our own market against those from the low-wage countries".

Hon. Mr. HORNER: Would you go so far as to suggest that we have a lowering of wages?

Mr. OAKLEY: No, but we want something more than just that protection. We have geared up our own production to the point that we are making more manufactured products than we are consuming. We want to trade with other countries, and even low-wage countries. When we ship our manufactured products into low-wage countries we are faced with the situation that our production costs are high largely because of the wage-content in them, and we have to have an equalization factor to equalize down as well as up. That is what we are trying to provide here. We think it can be made to work both ways. We think the world has a great deal to gain by an agreement on a program of this kind, and we were delighted to learn that your committee had been appointed to investigate into this situation. We think really it is the most important question that the world has to solve today.

Hon. Mr. HORNER: And in the next few years.

Mr. OAKLEY: Yes, and we have to do it very quickly.

Hon. Mr. CAMPBELL: Mr. Oakley, what do you consider is the greatest barrier to trade today of these three: First, the rate of duty; second, the inconvertibility of currencies, and third, the regulations or the hidden barriers that confront trade.

Mr. OAKLEY: Well, Senator Campbell, my answer to that may seem to you an evasion, and I do not want it to be an evasion. We regard these different elements in the international trade picture as a chain. Each one of these factors you have mentioned is a link in that chain, and we realize the chain is just as strong as its weakest link. If any one of these factors—and I do not care which one—is weak, then the whole chain suffers. We have picked out this question of tariffs and we have mentioned these other elements in the hope that they will be given consideration. The question of exchanges will probably be dealt with by committees which are much more able to deal with them than we are. You have probably heard representations from banking committees and from similar delegations as the one which you heard earlier this morning on the question of exchanges and gold values and so on. They will all have to be taken into consideration and worked together. It is a big problem but we hope we can make a contribution to the solution of it.

Hon. Mr. CAMPBELL: You would not care to say which, from your experience, is the greatest barrier?

Mr. OAKLEY: Well, we are importers and traders. We may be able to overcome the exchange difficulties and find Canadian dollars to buy United States dollars, or pound sterling or Indian rupees or whatever it may be, although the cost may be high because the rate is high. We may be able to pay the duties, though they may be high too. At any rate, as long as it is possible to bring in goods we can trade, but when you are up against quotas and embargoes and prohibitions, there is no trade. That is the greatest difficulty.

Hon. Mr. CRERAR: Do you think there are a good many difficulties in the way of getting your scientific tariff worked out? What was the phrase you used—scientific international tariff? It is a very interesting suggestion, but how is it possible to find a tariff that is internationally equitable? For instance, take Canada. We have a certain standard and certain efficiency. We pay pretty high wages. On the other hand, a country like Japan is fairly efficient but pays much lower wages and works longer hours per day. So that you have not only the wage factor but you have the work factor and the efficiency factor which have to be taken into consideration. If we reached an arrangement with Japan and said "Now, to get a fair result out of this we should put a tariff of, say, 20 per cent against Japan's imports". But we cannot put that tariff against Japan alone. We must put that tariff against other countries equally because we cannot discriminate in tariffs.

Mr. OAKLEY: What we have attempted to do is to list the countries alphabetically. We tabulated the average hourly wage rate for each of those countries. We have set a limit within which these customs rates may operate. Between any two countries the rate will be the same; that is, between each of them, though it will be different between the same countries and another pair or another one country.

Hon. Mr. CRERAR: Taking Japan as an illustration, the rate of tariff required in Canada in relation to Japan might be different from the rate that the United States would impose against Japan.

Mr. OAKLEY: That is right, but against all the products that we might buy from Japan the rate would be the same, because we assume that their labour costs are the same no matter what industry is involved. That is what we are concerned about.

Hon. Mr. EULER: You would have to make individual agreements with various countries?

Mr. OAKLEY: I do not think we would have to make agreements. If this is acceptable—and it is only workable if it is acceptable—and the countries agree that this is a fair standard and agree to take their places in their order of sequence where they come on the table according to their wage scale, and if every country, according to its place on the table, is allotted its proper rate, you see how simple it would be.

Hon. Mr. EULER: What I am getting at is how are you going to have all these countries get together in the first instance? Will they all sit around a table and come to some decision as to tabling what the individual countries are to do, or would you proceed by, say, Canada getting together with Japan? The two countries would consider their different wage rates and decide on what basis they should proceed, having regard to the wages and labour costs. Then if Canada wanted to she could make a similar arrangement with another country. Is it to be done in that way or in one great big job?

Mr. OAKLEY: My hope would be to do it in one big job. If we can all agree on the principle involved and agree that it is fair to all countries, then it is not a question of negotiations between, say, Japan and Canada for a rate, and so on.

Hon. Mr. EULER: Who would do it?

Mr. OAKLEY: You have them tabulated and it is worked out by agreement; that is to say, by collective agreement, and it is just a matter then for the statisticians.

Hon. Mr. HORNER: May I ask whether there has been any discussion about this with other countries? Is your organization purely Canadian?

Mr. OAKLEY: We are purely a Canadian organization. As we say in our brief, we are national in our membership and we are international in our outlook.

We have not collaborated with any other country to try and develop our ideas. We have simply tried to work out something that we hope is constructive and to overcome the trading difficulties over the years.

Hon. Mr. HORNER: I suggest that it would be interesting to take up the matter with other countries.

Mr. OAKLEY: As Mr. Corlett said in introducing me, I am a member of the Canadian Council of the International Chamber of Commerce. The International Chamber of Commerce will consider—and I will not say whether it will approve or not—this program. At any rate, we are submitting it to it. However, it has not as yet got that acceptance.

The CHAIRMAN: Honourable members, it is 1 o'clock, and if there are any more questions, please be as brief as you can, otherwise we will adjourn.

Hon. Mr. EULER: We thank these gentlemen for coming here.

The CHAIRMAN: Yes.

Mr. OAKLEY: On our behalf, I would like to thank the honourable members for giving us this hearing. We hope we have not kept you too long.

The CHAIRMAN: We thank you, sincerely.

Whereupon the committee adjourned.

APPENDIX C

SALES OF CANADIAN METALS AND MINERALS

	Production (1,000 tons)	Canadian Consumption (per cent)	Exports (per cent)	EXPORT TRADE TREND Exports (1,000 tons)	U.K. (per cent)	U.S. (per cent)
Copper						
1937-39 (annual average)	285	20	80	228	52	18
1952	259	47	53	148	29	53
Lead						
1937-39 (annual average)	203	13	87	176	66	2
1952	167	28	72	153	17	73
Zinc						
1937-39 (annual average)	191	12	88	166	62	3
1952	366	13	87	349	29	64
Nickel						
1937-39 (annual average)	110	1	99	109	39	40
1952	140	2(est.)	98(est.)	142	22	63
Aluminum						
1937-39 (annual average)	67	14	86	61	52	8
1952	500	15	85	416	62	29
Asbestos						
1937-39 (annual average)	354	negligible	100	*1945* 441	9	70
1952	928	1	99	*1952* 902	6	59

APPENDIX D

International Trade and its influence on Political and Economic Development.

This booklet contains a series of articles that first appeared in the weekly Bulletin published by the Canadian Importers and Traders Association Inc.

These articles have been collected and reproduced herein for the purpose of calling attention to the need for a more liberal attitude towards International Trade.

THOMAS OAKLEY,
Past President, Canadian Importers and Traders Association Inc.

Toronto, 15 April, 1951.

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After Marshall Aid—What?

The benefits that the United States has conferred, through Marshall Aid, on a war shattered and exhausted world are incalculable. Western Europe in particular has been so greatly assisted to re-establish a peace time economy by this generous help that this objective is now almost an accomplished fact. Marshall Aid has not, however, been limited to Western Europe alone; it has also been extended to Asia and the Far and Middle East. The burden of conferring these benefits has been carried by the citizens and taxpayers of the United States.

In making this generous gift to the world, the people of the United States have perhaps unconsciously been influenced by the old proverb—"Cast thy broad upon the water and after many days it will be returned to you". The benefits which have been conferred by the United States may or may not actually have been returned to its people; nevertheless benefits have been returned. It now seems quite evident that without this Marshall Aid Western Europe would have been over run by the forces of communism just as was Eastern Europe and China. It is also evident that had not Western European and other countries been supplied with the needed United States dollars, those countries would have been unable to purchase the manufactured goods and the natural products of United States production. A benefit is, therefore, conferred on those who give as well as on those who receive. There has also been a benefit conferred on countries which has not directly participated in Marshall Aid. Canada for example has had a readier market for its cereals and food products in England and in continental Europe than would otherwise have been possible.

In spite of all the benefits given and received—and they have been many, the United States is getting weary of carrying this heavy burden. For the taxpayers of that country to produce in 1950 the staggering amount of two billion seven hundred million dollars for Marshall Aid payments is no small accomplishment, even for a country as large and as highly industrialized as is the United States. Through their elected representatives in Congress and in the Senate they have served notice on the world that these benefits will stop in 1952. It was hoped that by that time the world would have sufficiently recovered from the dislocation and the destruction caused by the war to again resume its peace time economy. However optimistic we may be, and most of us like to be optimists, we cannot help wondering if this is likely to be so. If it is not so, and the world economic and trading position worsens because of the withdrawal of Marshall Aid the consequences are terrible to contemplate. They are, or seem to be, world depression followed by war and/or universal communism.

The present re-armament programme will no doubt temporarily remove the need for a more permanent substitute for Marshall Aid when that programme ends in 1952. Re-armament will be effective to accomplish this purpose, however, only so long as the re-armament programme itself continues. When re-armament comes to an end, and it must end reasonably soon, unless further necessitated by a third world war, a substitute for this artificial stimulus to international and to domestic trade must be found.

Everyone will probably agree that the United States have been carrying the whole burden which Marshall Aid has entailed long enough. They have now indicated that they are about to lay it down. The question is, who can and will pick the burden up. It is evident that this burden is too heavy for any one country to assume alone, but perhaps it can be carried jointly by a few countries or shared by many. Approximately three billion U.S. dollars is a lot of money to be produced by any group of countries, let alone by one country. Nevertheless as we have seen there are real advantages to be obtained and real benefits to be conferred by a continuance of Marshall Aid or a substitute for it.

The great benefit returned to a creditor country like the United States is that by giving Marshall Aid dollars to a debtor country like Italy or France those debtor countries can buy and pay for manufactured goods of United States production. The gift creates trade and trade creates employment and prosperity in the trading countries. Perhaps the greatest benefit conferred by Marshall Aid is the trade which it creates and the employment and prosperity that follows as a natural consequence of that trade. To create or encourage trade, two conditions are necessary between trading countries—the ability and willingness to buy, as well as the ability and willingness to sell.

The ability to buy often depends on the ability to sell. International trade in all essentials is an exchange of goods for goods, rather than an exchange of goods for money. The ability to sell, in turn depends on the ability to compete. It goes without saying that goods which sell must be competitive as to both quality and price. As between trading countries the cost of competitive or comparable goods will differ, and perhaps will reflect differences in wage or production costs between trading countries. For the purpose of equalizing these differences in production costs between countries, an international scientific tariff based on national wage levels might well be considered as a substitute for Marshall Aid.

Marshall Aid created the ability to buy in debtor countries but did not of itself create ability to sell. A more lasting benefit might be conferred on the world at this time, when it is most needed, by an international tariff or trading structure that will create both ability to buy and to sell. This may sound impractical to some, but actually there is nothing impractical in the idea.

All that is needed is an equalizing international tariff based on national wage levels. Such an international tariff would equalize prices between high and low wage countries on both the upper and the lower levels. That is to say it would equalize prices charged for goods going from low wage countries to high wage countries by an import duty on these goods entering the high wage country. It would also equalize prices charged for goods going from high wage countries to low wage countries by an export subsidy paid by the high wage country to the low wage country.

The adoption of such a scientific international tariff based on national wage levels would have the effect of lowering the cost of goods imported by low wage countries from high wage countries to make such goods competitive with goods of domestic production. It would also have the effect of increasing the cost of goods imported by high wage countries from low wage countries to put such goods on a competitive basis with similar goods of domestic production.

This international tariff programme based on national wage levels could do all that Marshall Aid did and more. It would not only increase capacity to buy on the part of debtor countries but it would increase capacity to sell or exchange goods by both debtor and creditor countries, by high wage countries as well as low wage countries. It would distribute the cost of such aid among all trading countries in proportion to their external trade volume. The bread cast on the waters by such trading countries would thus be returned to them.

Scarcity in the Midst of Plenty

We are all familiar with war time shortages and scarcity. That is to say, we are if we have not forgotten past experience. We no longer hear much about the War Time Prices and Trade Board, but we should not forget that it was created to deal with commodities in short supply—all commodities in fact, and to hold down prices at the production, wholesale, and retail levels.

The war which ended almost six years ago is sufficently far removed from the present that we are inclined to forget some of its lessons and even some of its conditions, which at the time we thought were indelibly impressed on our memory. Under five years of so-called uneasy peace or cold war, production caught up with demand for most commodities and in some lines of production surpluses were created. Surpluses were particularly noticeable in the case of agricultural products and now threaten to become more noticeable unless war demands remove them. In the United States fantastic measures were adopted by the government of that country to pay the producers artificially high prices for their surplus production and then in some way to dispose of the surplus purchased or subsidized without letting the prices fall. In our own country we have done something very similar with Canadian butter, the price of which was kept artificially high by government subsidy.

Whenever prices are kept artificially high by the various devices which have been used for this purpose, it has been found necessary to subsidize one group of producers at the expense of the other groups. If for example the price of potatoes is kept at an artificially high level in the United States the producers of potatoes are paid a bonus or subsidy which must be collected from the taxpayers as a whole. There is, of course, a lot of resistance to the policy by the taxpayers at large and sometimes the policy is not even favoured by people who are not taxpayers. The various attempts which have been made by many countries in the past to cut back or limit production of agricultural produce, or to destroy surpluses which have been produced and which threaten to lower prices below the cost of production, have always been unpopular with some people or some countries.

There was a natural resentment in other countries to the policy adopted by the Roosevelt administration of the United States in the 30's to destroy

what was regarded as a surplus hog production. It is true that the measure brought some relief to the hog raising farmers of the United States, at the time, by stabilizing a falling market for hogs, but as a result of the policy people in other countries where food was scarce were deprived of needed bacon and pork. The same situation existed recently in the United States with respect to potatoes and eggs. It is a situation that threatens to become more general on this continent as a result of the natural desire of the farmers of Canada, and of the United States, to increase production and at the same time hold prices.

On the face of it, the policy of holding prices by limiting production, or by destroyng surplus production, is morally wrong. If people in need of food are denied that food because the producers want higher prices there would seem to be both moral and economic injustice somewhere. On the other hand there would seem to be no good reason why the farmers of North America, or of any other country where surplus agricultural production may exist, should assume the responsibility of feeding the hungry people in the world wherever they may be. There must be some equitable basis on which the producers can be rewarded and the hungry can be fed, short of making the latter a charge on the former.

The crux of the problem lies with the exportable surplus. That portion of domestic production which can be consumed in the domestic market offers no problem and this is true of both agricultural and industrial production. With production geared up in both of these fields, agriculture and industry, to meet war demands, it is not surprising that we are encountering surpluses in both of them. The problem is what to do about it, and the programmes offered, of cutting back production on the one hand and subsidizing production on the other, seems both contradictory and illusionary. These solutions are bound to end disastrously as has happened before. The only situation that may change things is another world war, and this we are trying desperately ot avert. It may be, however, that our very desperate efforts may have the opposite result to the one we are seeking and may in fact plunge us into another war.

Why not recognize the fact that our problem is concerned with the exportable surplus only and if we want to subsidize production subsidize that part of production, and that part only. It would of course have to be done on an equitable basis which would apply to both agricultural and industrial exportable surpluses. The needy peoples of the world should be fed, but they should also be clothed and encouraged to lead a fuller and a happier life. By subsidizing our exportable surpluses we could benefit the needy and at the same time benefit ourselves. Such subsidizing would have to be done on a scientific as well as on an equitable basis and here again a scientific international tariff to which we have previously referred might accomplish the desired result.

It is perhaps a new concept of tariffs to think of their application to agricultural production, but is there any reason why the agricultural worker should not be protected? Surely the agricultural worker is entitled to protection just as much as his fellow citizen in the industrial field. In the same way his surplus production is entitled to payment of a subsidy just as would be the surplus or exportable part of industrial production. If we recognize the fact that economic differences do exist between countries, and who can fail to recognize them, then we must logically recognize the justice of trying to equalize those differences. A general raising of standards of living everywhere can be brought about by an international scientific tariff based on national wage levels. Why not endeavour to work out such a tariff and give trade and production a chance to expand instead of seeking to contract both.

East is East and West is West

The differences in the standard of living between races or between countries have throughout the world's history been a constant irritant that have often resulted in wars between "the haves" and "the have nots". It is true that there have been many wars where there was very little difference between the warring groups in their standard of living. Usually however in such cases the aggressor hoped to gain something at the expense of the aggrieved. As long as economic differences between national or other groups exist there will no doubt be a tendency to resort to war as a means of adjusting those differences.

As a result of World War II, whose causes can be traced to these same economic differences, there has been a tendency for the world to be divided into two main groups—East and West. The Eastern group includes practically all of Asia and part of Eastern Europe. The Western group includes Western Europe and America. There is a marked difference in the standard of living of the two groups of which both groups are conscious. The fact that the standard of living of the Western group is higher than that of the Eastern group is a cause of irritation and of envy on the part of the Eastern group. The irritation has been added to by the belief, strongly held by the Eastern group, that the favoured position of the west is in some measure at least due to trading and territorial advantages held by the West. The fact that the United States and Great Britain and France have trading advantages in the East which are not compensated for by any comparable trading opportunities afforded to the East in the Western countries is also an aggravation. Added to this is the fact that both France and England have territorial possessions in Asia and Africa which are not favourably regarded by the Eastern group.

The fires of nationalism burn fiercely wherever a country or a district is occupied by a foreign power. This is illustrated in the case of Korea today. The occupation may be benevolent and it may be quite acceptable and beneficial to the people in the area occupied, but inevitably neighbors and patriots will feel that a territory has been violated and a wrong perpetrated which must be redressed. This was the case in India and it is still the case in Indo China, in Hong Kong and in Malaya. It may or may not be the case in the Philippines.

It appears from any viewpoint that the world is becoming divided into two hostile camps—East vs. West. The animosity of the East towards the West is encouraged by two main considerations—firstly the relatively higher standard of living enjoyed by the West and secondly an intensification of national consciousness in the East which is challenged by Eastern colonial territories held by the West.

Unless some reconciliation can be found for these two hostile attitudes of East towards West and vice versa, the world will be drawn closer and closer towards a third world war.

The question for which an immediate answer must be found, if a conflict is to be avoided, is what can be done to overcome this great difference in living standards between the East and the West. The prosperity of any and every country depends on its trade, that is, on both domestic trade and international trade. This being so, it is apparent that only by increasing the trade of the East and by improving its trading position with the West can any hope be found for improving its standard of living. This increase in trade need not necessarily be found wholly in the West, but from that increase which is found in the West both East and West can benefit, economically as well as politically.

It is important that every possible encouragement be given to international trade if international peace is to be found. This necessarily means a new concept of trade and tariff. A scientific international tariff based on national wage levels is recommended as a practical solution.

A Scientific Tariff Structure

In an earlier chapter of this booklet attention was drawn to the need for a revision of national customs tariffs on a scientific basis. The need for the revision of all national customs tariffs has been apparent to all international traders for a very long time. During the depressed years of the thirties the need was very acutely felt indeed. With the outbreak of war any serious consideration of tariff revisions was dropped for the more important business of bringing the war to a successful conclusion. Since the war ended in 1945 piecemeal revision has been attempted under the impetus given by trade agreements entered into by the various United Nations at Geneva, Havana, Annecy and Torquay. Such changes as have taken place are not basic but have been the result of diplomatic negotiation. The task of revision on a scientific basis still remains to be undertaken.

The dependence of all trading countries on each other has been clearly demonstrated, and if further proof were necessary one need only recollect that no country can live entirely to and by itself. In our own case, Canada's foreign or external trade is approximately one third of its total trade. This external trade is vital to us and it is imperative that favourable conditions for its maintenance and growth should be established. Favourable conditions can only be established by bringing about the four basic necessary requirements—free exchange rates, removal of trade embargoes and quotas, removal of invisible tariffs, or as it is sometimes called—customs maladministration, and the establishment of a scientific international tariff system.

A tariff structure that is established on a scientific basis is the only structure that has any hope of general acceptance among trading countries. To be scientific is to be reasonable and fair. A scientific international tariff is designed to regulate trade on a basis of reasoned economics, instead of on a basis of political or economic opportunism. If there is any general agreement on the justification for a customs tariff it seems to be based on the acknowledged right of high wage countries to regulate or control the competition which they have to meet in their own markets from low wage countries. The rates established by the high wage countries to regulate this competition are sometimes fair, sometimes prohibitive, but never are they scientifically worked out on a basis of relative wage costs or wage rates between two trading countries.

It should not be too difficult to work out the average wage levels or average wage rates in the different trading countries. Once this has been done, the relative labour costs in each country would be set down in their proper order. It is quite true that wage costs are only a part, and sometimes a small part, of total production costs. Nevertheless for the purpose of regulating or adjusting competitive selling prices between trading countries this is the most reliable and the fairest index of price differences. It is also true that efficiency in production will vary between one country and another just as it often varies between one industry and another. It would be unwise and also unfair to protect and so perpetuate inefficiency which would result from a tariff which is too high. One of the valuable corrective measures that competition brings about is an increase in efficiency and it should be encouraged, not curtailed. It is sometimes argued that one country has an advantage over another in the growth or production of raw materials, or of water power, and that these differences should be compensated for by national customs tariffs. Our consideration of this argument forces us to the conclusion that such differences are like climatic differences and that it is neither wise nor desirable that any attempt at equalizing them should be made.

One must also recognize the fact that wage levels in all countries are not fixed, but are fluid changing with changing economic and trading conditions.

We must also realize that one of the main purposes of production and trade is to raise standards of living and to enrich the lives of the people in all trading countries. These changes in wage levels should, therefore, be encouraged and recorded in the wage structures of each and every country.

After careful consideration of all the elements entering into the cost of production which are generally classified as—raw materials, wages, and overhead expenses—we are convinced that wages is the best and the fairest index of total production costs. This basis is, therefore, proposed as the basis for an international scientific tariff which it is hoped will be acceptable to all trading countries.

In the interests of prosperity and peace it is important that early agreement be reached by all trading countries on a scientific international tariff structure.

Competition Is The Life Of Trade

The two principles upon which the Canadian Importers and Traders Association is founded are "Imports pay for Exports" and "Prosperity depends on Trade". To these two principles a third should perhaps be added "Competition is the life of Trade". Without competition trade stagnates, and as a consequence prosperity disappears. One of the best illustrations of the application of this principle, or the result of the absence of competition, is to be found in the state operated retail store in a totalitarian regime like Russia. There, stores have little or no competition to face and consequently lack the incentive to efficiency that is so apparent in our own free enterprise retail stores. Wherever a monopoly exists, in either the production or the transport, or the selling of merchandise, there is usually found to be a lack of efficiency. We apparently need the stimulation or the incentive of competition if we are to do our best. No world records have ever been set by any one running a race with himself.

Individually and as business men, we might all like to be monopolists and as such free from competition. We are all perhaps inclined to feel that it would be a great thing for each of us if we had no competition. We then would not have to worry about our selling prices or our costs being on a level with our competitors; we could set our selling prices then at whatever level we liked, and—Oh Boy—wouldn't we then set selling prices at a level that would give us handsome profits. We would not even have to worry about doing any selling. If we had no competitors, buyers would then have to come to us . . . Wouldn't that be fine? Yes, for us fortunate monopolists it would be fine—at least it would for a time. We could then take it easy and not worry about a thing. It is probable, however, that our customers wouldn't like it. They would probably feel that we were charging them too much, but we should worry, or should we?

There is no doubt that under this monopolistic system trade would fall off. We would ourselves have more time for golf and less time for business. Our sales might fall off too, but we might make this loss up by increasing prices. However we might juggle things, it is quite likely that we would find prices going up and sales falling off. Production would have to be cut back as a necessary consequence of this declining trend which in turn means laying off employees. It would soon become apparent to all us monopolists that we were obtaining our easy prosperity at the expense of the rest of the country. Our fellow citizens, who were not themselves monopolists, would not share our prosperity but would provide that prosperity for us at their expense. Sooner or later, however, we are bound to find our prosperity vanishing too, but not before we have reduced the rest of the country to a very low state indeed.

The truth of the statement that competition is the life of trade is now in this country generally accepted. What is equally true, but not so generally recognized is the reverse of this principle—"that monopoly is the death of trade". There are of course varying degrees of monopoly, not all monopolies are absolute. In the field of international trade many countries are shaping their foreign or trading policy with a view to creating monopolies for their domestic manufacturers in the home markets. This policy carried to its natural conclusion is, of course, the death of trade.

Competition is now generally recognized as the best stimulator and regulator of trade in both domestic and international markets, but it must itself be regulated. It is only by the adoption of a program of scientific regulation that trade and prosperity can be increased. To put it another way, if trade contracts or shrinks by reason of the adoption of national policies designed to create national monopolies, world depression is inevitable. Competition in international trade must be encouraged. Every country must be encouraged to "export" and to "import".

Two countries trading with each other, both of whom have approximately the same wage level, require little in the way of tariffs to regulate trade between them. The greater freedom that can be given to the trade between any two such countries on the same wage level, the better. Such conditions are favourable to expanding trade and prosperity.

When a high wage country trades with a low wage country it is desirable that there should be a movement of goods in both directions—from high to low and from low to high. When goods move from the low wage country to the high wage country a scientific tariff should equalize the imported cost of the goods produced in the low wage country with the cost of similar goods produced in the high wage country.

When goods move from a high wage country to a low wage country the scientific tariff should also equalize the imported cost of goods produced in the high wage country with the cost of similar goods produced in the low wage country.

It is necessary that we enable our own exporters as well as the exporters of other countries to compete in both high wage countries and low wage countries. Expanding trade requires markets in low wage countries as well as in high wage countries. When Canada, a high wage country, sell its goods in Japan, a low wage country, it is necessary that it be able to compete in that market with goods of Japanese production, and also with goods produced in other countries which are imported into Japan. A scientific tariff must be able to equalize prices for goods moving from the upper levels down to the lower levels, as well as being able to equalize the prices of goods moving from the lower levels to the upper levels.

A scientific tariff should encourage competition by equalizing prices. It will enable and encourage the weak to trade with the strong and vice versa. It will also encourage the weak to become strong by encouraging the weak to raise wages and to raise standards of living.

The old concept of imposing taxes or tariffs on imports and using the money collected in this way to defray the expenses of government must give way for something more progressive. It is utterly wrong to discourage trade by embargoing it or by unfairly taxing it. Trade is the keystone on which all our prosperity depends. It must be encouraged on a competitive basis. Exporting countries must be encouraged to sell their products in the markets of all trading countries. This can only be done by a scientific tariff internationally acceptable, that equalizes prices down as well as up. Trading monopolies must give way to competition, for competition is still the life of trade.

In an earlier chapter it was suggested that a scientific international tariff should be the substitute or the successor for Marshall Aid. What was meant by this suggestion is that the low wage countries or low standard of living countries, who are in need of outside aid, would be receiving such aid, not from the United States alone, but from all high wage countries with whom each was trading. The aid so given would be directly related to the needs of each country as indicated in its foreign purchases or imports and would, of course, be given on the scientific basis which underlies this international tariff plan.

The benefit to any low wage country which is enabled to import goods from high wage countries at prices equalized down to the level of production costs in the importing low wage country is a measurable benefit. In the case of consumption goods such as food, clothing, etc., such goods are then available to the native population at lower prices, which has the effect of both lowering the cost of living and raising the standard of living within the country.

In the case of production goods such as machinery tools, equipment, etc., the same lowering of imported cost occurs in the low wage country. The consequence of this is a direct encouragement to both trade and industry in the low wage country.

Trade can only be encouraged or expanded by raising standards of living in all trading countries. We should never lose sight of the principle that "prosperity depends on trade". It is a good thing for people, both individually and collectively, that the cost of living be lowered for them. Such a lowering of the cost of living encourages consumption which in turn encourages both trade and production. Quite apart from the benefit to the individual in the low wage country which results from a lowering of the cost of the imported goods which he consumes, there is an even greater benefit conferred by encouraging native production and industry to sell its products on equalized terms in other countries. If low wage countries generally can be encouraged by the proposed scientific international tariff to export their native production to other countries, a benefit of inestimable value is conferred. By the same token the benefit is twofold, because the exchange of goods for goods, benefits both parties to the transaction. By this arrangement all trading countries are benefited.

Under the proposed scientific international tariff, customs duties collected by high wage countries would no longer be used to cover the cost of national government. These revenues would then be used for the purpose of subsidizing and expanding export trade to low wage countries on a scientific basis.

A Suggested International Tariff Plan

In this chapter a plan is outlined whereby all trading countries of the world may be listed in order of the average hourly wage rates paid in each. For convenience the rates in the schedule hereunder are shown in dollars, though any other common currency unit would serve the purpose equally well.

The tariff rate shown opposite each country (which is indicated by letter rather than by name) is proportional to the wage rate shown for each. A maximum tariff rate of .50 has been selected because it was thought that for the intended purpose it was not necessary to exceed this rate. The remaining tariff rates shown in the schedule vary between the maximum of .50 and the

minimum of 0 and are, as previously indicated, proportional to the wage rate shown for each country.

Country	Average Hourly Wage Rate	International Tariff Rate
A	$2.00	.50
B	1.75	.4375
C	1.50	.375
D	1.25	.3125
E	1.00	.25
F	.75	.1875
G	.50	.125
H	.25	.0625
I	.10	.025
J	0	0

Under the proposed International Tariff Plan, goods shipped from one country to another would be subject to the payment of a customs duty or tariff calculated at a rate corresponding to the difference between the rate shown opposite the importing country and the rate shown opposite the exporting country in the above schedule.

For example, if goods are imported by country "A" from country "J" the rate of duty applicable would be calculated at a rate of (.50—0) or 50%.

If goods are imported by country "A" from country "E", the rate of duty applicable would be (.50—.25) or 25%.

If goods are imported by country "J" from country "A", the rate of duty applicable would be (0—.50) or —50%.

If goods are imported by country "E" from country "A", the rate of duty applicable would be (.25—.50) or —.25%.

From the above illustrations it will be seen that where the movement of goods is *up* (from low wage countries to high wage countries) the duty or tariff is a positive rate or a plus quantity to be added to the cost of the goods. This is a tax or duty imposed by the importing country at the proper rate as calculated according to the above procedure.

On the other hand, where the movement of goods is *down* (from high wage countries to low wage countries) the duty or tariff is a negative rate or a minus quantity to be deducted from the cost of the goods or, alternatively, to be paid as a subsidy by the exporting country to the importer.

The objective of the proposed International Tariff Schedule is to encourage international trading by attempting to approximately equalize production costs in terms of wages paid. In equalizing wage costs in this way and to this extent, exporting countries are better enabled to compete with each other in world markets.

It is desirable that competition between countries selling their surplus production in world markets should be conducted on a basis that approximates equality of production costs as nearly as possible. It is recognized that no system of national or international tariffs will effect complete equality. This being so, it would seem desirable to aim at an ideal in the hope of getting as close to the ideal as possible.

The low wage countries have a definite advantage, in lower labour costs, when competing with high wage countries in world markets. It is sometimes true that this advantage is offset by inefficiency in production methods and in equipment, as compared with high wage countries. Nevertheless because efficiency is desirable, we should seek to encourage it wherever possible. This was the objective that Mr. Truman had in mind when he enunciated this year

his program for world assistance. Point four of that program was designed to make American "know how" or efficiency available to all deserving countries. The Colombo plan also contains a provision whereby those countries seeking to create or to expand industries within their borders, may obtain technical advice and assistance from other more technically advanced countries.

International competition exists on all levels—high, low and intermediate. It is desirable, therefore, that our equalizing factor or international tariff be effective on all levels. In other words, it is desirable that we equalize *down* as well as *up*. It is for this reason that the negative rates are applicable on the export of goods from high wage countries to low wage countries.

Flexibility is a very desirable feature for any programme which has as its object the increase of world trade. It is very desirable that low wage countries should be encouraged to raise their national wage levels and their national standards of living. It is equally important, as these changes are brought about, that improved or increased trading opportunities should be offered to such countries. For this reason, the tariff schedule submitted should be revised each year so that where a rise in national wage levels has taken place, the country or countries wherein such changes have taken place should occupy their new and proper place in the schedule. In this way an incentive is offered to all trading countries to raise wages and to improve national standards of living.

As the purpose of the international tariff plan is to create and to expand international trade, it is important that this goal be kept constantly in mind. Customs duties collected on imports should not be regarded as additions to national revenues, but rather as a revolving fund for the purpose of assisting exports.

If allowed to operate freely the plan will of itself prevent the exclusion of exports and the creation of monopolies. It would also act as an automatic check on dumping.

The Proof Of The Pudding

It has for a long time been generally agreed that the proof of the pudding is the eating of it. This may be the case also with the proposed International Tariff Plan—that we can only prove or disprove its worth by trying it out. The risks and changes involved in making such a try out do not appear to be very great. The machinery is already set up, in every trading country, for the collection of customs duties and the payment of subsidies where necessary. What then do we stand to gain or lose by giving it a try?

In the first place we make a considerable gain from the simplicity of the operation. Instead of using a complicated tariff schedule containing some nine hundred tariff items with additional subsections for many of them, we have only one rate and one tariff item for each country from which we may import.

In the second place, we make a considerable gain in the more definite arrangements provided by the plan. An importer knows at once the rate of duty he will have to pay on any merchandise purchased in any country. He also knows that the goods he wishes to import will not be refused admission by reason of quota restrictions. This same definite knowledge is of great advantage to the exporter. He too knows what duty his goods will have to pay on admission to any country in which he may wish to sell and he knows also that under the terms of the International Tariff Agreement his goods will be admitted at the proper rate of duty.

In the third place a benefit is conferred on those countries most in need of it. The low wage countries are enabled to purchase from high wage

countries manufactured goods, and machinery for their own industrial development, on more favourable terms (by reason of the export subsidy). Such a benefit is twice blessed. "It blesseth him that gives as well as him that receives". This follows as a result of increasing trade between the two countries and as a consequence of this, increasing both production and consumption in both countries.

The great gain which the International Tariff Plan has to offer all trading countries is this gain of increased trade. It does not require a great deal of imagination to see the benefits of such an increase. We each of us know the benefits to be derived from increased trade in our own business. The other fellow is in no wise different from ourselves, be he in the Eastern group or the Western group. Take for example any daily worker in the Eastern group. It does not matter what work he is engaged in—it may be carving ivory, or hammering brass, or growing wheat. In all of these occupations his problem is the same—to sell his product for the best price he can obtain for it. If his sales are limited to the village market in which he resides, the market may be small and the demand limited, in which case the price he obtains will be small also. If the market is not limited to the immediate locality but includes the other national markets within the boundaries of the country, then the demand will be greater and probably the price higher. If, however, the market can be still further extended to include world markets, the demand is still further increased and price correspondingly advanced. The greater the market the greater the demand and the greater the demand the greater the price. This means that the Eastern worker is in this way encouraged to produce more goods because he can sell more, and he receives more for his labour in return, partly because he has more produce to sell, and partly because there is a greater demand for the products of his labour.

If the goods produced in the East are exchanged for goods produced in the West, both groups gain from this increase in trade. In this way standards of living are raised and the threat of war removed.

In the exchange of goods between countries the operation of an International Tariff Plan is only one of the links in the chain. Some of the other links or elements in this international trade movement are Foreign Exchange or Currency Exchanges and the influence of national policies. It is an old saying that no chain is stronger than its weakest link. It is important, therefore, that all the links in the chain of international trade be strong if the best results are to be obtained.

Freedom of currencies and freedom of exchange rates is a necessary condition of a free society. Freedom from embargoes and from trade restrictions is also a necessary condition for the successful operation of any international tariff plan. Accessibility to markets in other countries and accessibility to sources of supply in other countries for all international sellers and buyers is an important link in the chain of events in expanding international trade. In other words, the trading countries who may wish to participate in the plan must do so with a free will and a desire to improve international conditions as well as to improve national conditions.